Global Rates Weekly

SLR-umber party

The View: Remarkable range

Several events in the next week—such as shifts in underlying macro data, central bank moves, fiscal developments, or geopolitics—have the potential to test recent ranges.

— M. Cabana

Rates: US data & sentiment shift = close pay Z6 & 10s30s

US: US data & sentiment shifts = close pay July FOMC & Z6 + 10s30s steepener. Risk of higher Fed '25 dot = pay Dec FOMC OIS; SLR changes coming but won't matter much.

EU: We examine flows into EGBs by Japan investors. We remain optimistic on improved demand outlook, especially for periphery and some semi-core.

UK: Our confidence in an at least quarterly cutting path has been propped-up recently. Risk-reward in receiving November MPC-dated Sonia looks attractive

AU: Positive spillovers from asset reallocations in focus on our N America investor trip. We like AUD spreads and semis given robust demand profile for AU bonds

JP: LDP wins = fiscal discipline + political stability; LDP loses = fiscal & political risk to increase

— M. Cabana, M. Swiber, B. Braizinha, R. Axel, S. Salim, E. Davidsson, A. Stengeryte, M. Capleton, O. Levingston, T. Yamashita, S. Yamada

Front end: Eliminating IORB: low odds but high impact

US: We detail odds and potential impact from Fed IORB elimination

UK: Bank's intention to increase ILTR's min spread over Bank Rate on bids against Level A collateral to 3bp surprised us. This could detract from the ILTR's appeal.

— M. Cabana, K. Craig, A. Stengeryte, M. Capleton

Spreads: Ireland: high growth, but risks on the downside

EU: Uncertainty and risks weigh on Irish bonds but the market remains resilient. RV opportunities are limited at the moment.

— E. Satko

Inflation: OATei 2053's convexity value looking oversold

EU: We suggest OATei 2038/'53 real yield flatteners. Convexity looks cheap once again.

— M. Capleton

Technicals: US 30Y yield – summer spike risks

US 30Y yield is retesting the cycle highs at +/- 5.18%. Long term history shows yield spikes tend to occur when forming seven double top patterns since 1997

— P. Ciana

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13 June 2025

Rates Research
Global

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Global Rates Research
MLI (UK)

Ralf Preusser, CFA
Rates Strategist
MLI (UK)
+44 20 7995 7331
ralf.preusser@bofa.com

Mark Cabana, CFA
Rates Strategist
BofAS
mark.cabana@bofa.com

Sphia Salim
Rates Strategist
MLI (UK)
sphia.salim@bofa.com

See Team Page for List of Analysts

Timestamp: 13 June 2025 06:00AM EDT

Our medium term views

Exhibit 1: Our medium-term views
Global views

Rationale	
Duration	• US: underweight UST duration given market is underpricing US data resilience & overpricing Fed cuts • EU: We turned tactically neutral on the very front-end. We expect lower rates (terminal Depo of 1.5 vs market pricing of 1.75), but believe risk-reward for a long position is more balanced near term. • UK: We are broadly neutral Sonia relative to the forwards in the 10y, forecasting Sonia at 4.10% by end-2025 and 4.20% by end-2026. We are constructive Gilts at current levels. • JP: We expect the 10yr JGB yields to rise to 1.5% at end-2025. The BoJ is expected to keep its de facto QT at least until March 2026. • AU: bullish 3-5y sector as prices converge with our expected terminal cash rates/ neutral rate. Risk of overshoot in global equity market sell-off.
Front end	• US: paid July & Dec '25 FOMC OIS, paid SOFR Z6 • EU: Bank demand for excess liquidity may outstrip supply. Wholesale funding cost to rise: Euribor-€str widening, repo to stay cheap vs €str. • UK: Our Bank Rate base case implies scope for pricing in of more cuts later this year which also implies a steeper curve out to 10y. We receive November MPC-dated Sonia. • JP: We believe the next rate hike will be delivered more likely in April 2026 rather than our prior base case of June 2025. TONA is likely to remain slightly below IOER in 2025. • AU: We recommend Mar '25/ Sep '25 BOB steepeners to position for tighter funding market spreads and uneven global liquidity dynamics in H1/H2 '25
Curve	• US: We favor 10s30s steepener as supply pressures push back end underperformance • EU: given the more hawkish ECB reaction function, we see potential for the EUR 2s10s curve to not steepen as much as forwards are pricing in 2H25. Further out, we look for a shift in P&I duration demand from the 30y to shorter maturities, leading to additional steepening pressures on 10s30s from year-end in swaps space. • UK: We maintain our short in 3s5s7s Sonia fly which is directional with 2s10s Sonia curve steepeners. • JP: We expect the JGB curve to remain steep due to a lack of demand and potential for the Japanese government to draw up a supplementary budget. • AU: We like front-end flatteners. Recommend buying 3y bond futures (YM), selling Dec '25 bill futures
Inflation	• US: long 2y3y on higher realized inflation medium term • EU: We favor receiving 5y5y real €str and the forward real yield between BTPei 2033 and BTPei 2039. • UK: We would receive the forward real yield between UKTi 2035 and UKTi 2049, against paying the equivalent forward in TIPS. • JP: 10y BEI should increase in 2025, given supports from the BoJ and MoF.
Spreads	• US: Short 30Y spreads on dual disappointment of de-regs and deficit – also bearish long end spreads on market structure and flight to safety events. • EU: we expect the periphery to remain resilient, as the medium to long term outlook is more positive, We favour spain, with a long on the PCA fly vs Italy and Germany. We are neutral on 2-10y swap spreads but expect some richening in 30y Buxl spreads from year-end. • UK: We expect low coupon UKT 0.125% 2028s to perform relative to UKT 4.375% 2028s on ASW. We are also long 30y Gilts on ASW. • JP: Given (1) the potential for additional BoJ rate hikes and (2) BoJ's QT, JGBs are likely to be cheaper vs matched maturity swaps. • AU: We see wider swap spreads, especially in the front end given elevated funding risks, but flatter swap EFP box given bond supply is typically concentrated around 10y sector. We like tighter semi ASW and semi-ACGB spreads in the long end.
Vol	• US: Vol supported by uncertainty. '25 targets: 100-115bp 1y10y in 1H & 85-100bp in 2H; 1y1y c.110-120bp, Gamma flat vs intermediates • EU: We expect implied vols to come lower with 1y10y around 70bp range and LHS cheapening vs RHS. Gamma to stay well supported (1y10y vs 1m10y at 0-5bp). • AU: Lower vol with 1y10y c.70bpbp and left side likely to underperform the right side in'25

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Our key forecasts
Global forecasts

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

Source: BofA Global Research

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What we like right now

Exhibit 3: What we like right now
Global views

AMRS :	Constructive duration, short 30Y spreads, long 2y3y inflation, long fwd vol
EMEA :	We are received 5y5y "real €str", long 10y Spain on the credit fly vs Germany & Italy
APAC:	Short Dec '25 bill futures, buy 3y bond futures (YM) as hedge. Spreads: pay 1y1y bills-OIS basis (BOB), buy TCV 5.5% Sep-2039 vs 10y AU swap..

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

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The View

Mark Cabana, CFA
BofAS

The week that will be

Major global 10Y rates have largely traded within a 40-80bps YTD range amidst elevated macro uncertainty (Exhibit 4). Rate ranges are unlikely to break due to shifts in trade uncertainty, which is expected to remain stable according to our FX & rates sentiment survey (Exhibit 5). A break in global rate ranges will likely take a shift in underlying macro data, central bank moves, fiscal developments, or geopolitics. Along these lines, there are several events in the next week that may test recent ranges, including:

US: Fed, retail sales, & regs, fiscal. Fed = on hold, limited forward guidance, but higher '25 median dot b/c upward PCE revision; we like being paid Dec FOMC. Retail sales = US econ sees lower vs street forecast (see BofA on USA). Regs = SLR movement is coming, we don't think it matters much (see SLR update). Fiscal = Senate should offer detail on "Big Beautiful Bill", we see risk is for more fiscal expansion & still like short 30Y spread.

UK: BoE & CPI. BoE = on hold, risks of move dovish cutting path due to labor & wage trends (see BoE preview); we like receiving Nov MPC Sonia (see UK macro).

JN: BoJ key focus. BoJ = on hold, focus on JGB purchase reduction plan (see BoJ preview). We expect BoJ to continue reducing JGB purchases into FY26; we anticipate a slower pace of reduction, to around ¥300bn which could steepen 10s30s.

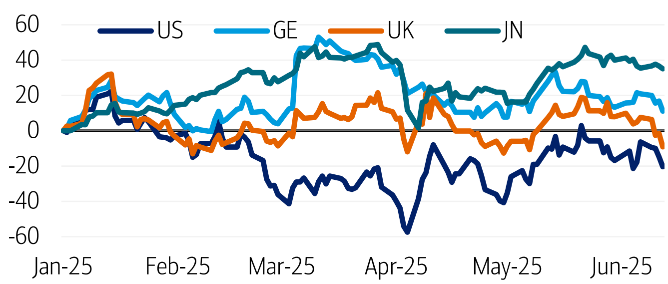
EU: surveys in focus. German ZEW key prior to '25 budget, French INSEE manufacturing and business confidence, + EU Commission consumer confidence release.

Geo-pol: Middle east tensions may see flight to quality, higher oil is upside inflation risk.

The week that was

US & UK rates were particularly volatile. US rates swung with mixed US data (better payrolls, softer inflation); our pay July FOMC OIS hit target after payrolls & we close pay Z6 slightly above entry after weak inflation that opens scope for "good cuts" (see Rates – US). UK rates declined toward near YTD lows after labor & wage moderation, soft monthly GDP & production, + increasing perception that UK QT pace will be slowed. EU rates were largely caught in between US & UK rates; we remain optimistic on EU rate inflows from Japanese investors esp in periphery & semi-core issuers (see Rates – EU).

Exhibit 4: Cumulative YTD 10Y range change (bps)
Despite uncertainty, global 10Y yields have been remarkably range bound



Source: Bloomberg

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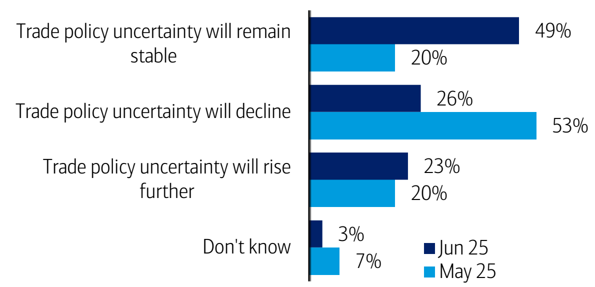
Exhibit 5: My view on trade policy uncertainty over the next 6 months:
Trade uncertainty to remain around current – still, historically high – levels



Source: BofA Global Research FX and Rates Sentiment Survey

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Rates – US

Mark Cabana, CFA
BofAS

Meghan Swiber, CFA
BofAS

Bruno Braizinha, CFA
BofAS

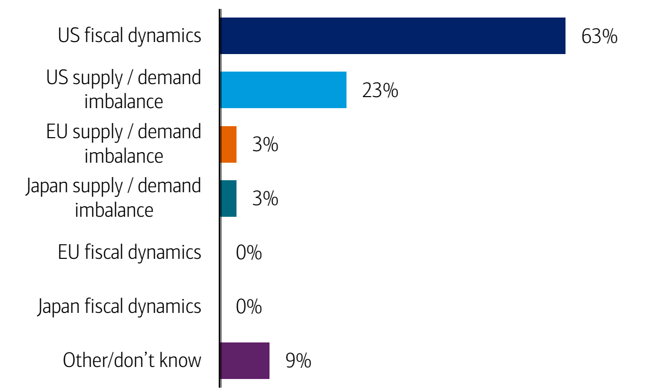
Ralph Axel
BofAS

- US data & sentiment shifts = close pay July FOMC & Z6 + 10s30s steepener
- Risk of higher Fed '25 median dot = pay Dec FOMC OIS; SLR changes coming

US rates modestly bull flattened in the past week after stronger-than-expected payrolls & lower-than-expected CPI / PPI. On net, the market remains confident in a near-term Fed on hold & while trying to sort macro impacts of recent economic policy changes.

Our FXRS Survey suggests that US fiscal dynamics have been the biggest driver of global curve steepening (Exhibit 1). A combination of stretched positioning (see: Steepener scaries) and cooling data have likely triggered recent long end rate demand.

Exhibit 6: Biggest driver of recent global rate curve steepening:
US fiscal dynamics are seen behind the recent global rate curve steepening



Source: BofA Global Research FX and Rates Sentiment Survey

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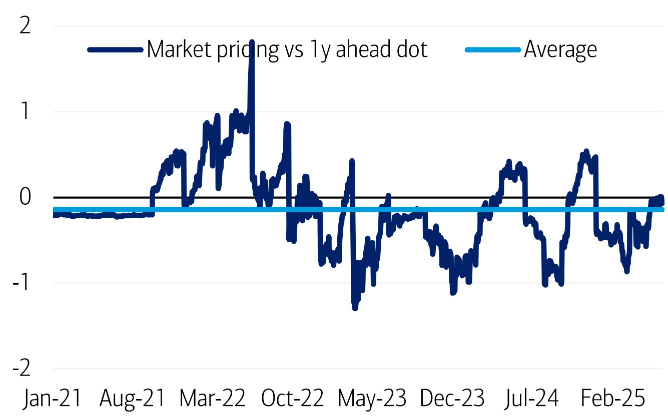
Exhibit 7: Spread between market pricing and 1y ahead dot (PPTS)
Market has more room to reprice end 25 fed funds rate higher if dots move up vs lower if dots stay the same



Source: BofA Global Research, Bloomberg, Federal Reserve

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We have recently been underweight US duration due to a Fed on hold & continued solid US economic data. Our trade recommendations have been: (1) pay front end (July & Dec FOMC OIS + Z6) due to healthy US economy & few signs of concerning growth slowdown (2) underweight back end (short 30Y spreads & 10s30s steepeners) due to longer-dated UST supply / demand imbalance (3) long 2y3y inflation due to a more drawn-out period of tariff price pass through.

We adjust our recommendations due to recent data flow & less negativity on UST back end. The reduced back end negativity partially stems from increased expectations for UST WAM shortening (see USTs: squeezing the supply balloon). Changes include:

(1) close pay July FOMC OIS at target (see Target reached on pay July FOMC OIS)

(2) close pay Z6 at 3.27% (open 3.26%, target 3.90%). We shift view after recent data which was not strong as we expected, especially recent ISM + inflation data. The inflation data especially reduced our conviction in being paid Z6 due to the increased possibility of "good cuts" with lower inflation over time.

(3) close 10s30s steepener at 48bps (open 45bps, target 70bps). We close the trade after DC developments suggesting the tax cut bill may not be as fiscally expansionary as feared + greater client acceptance that UST will likely need to shorten WAM over time.

Client feedback from our pay Z6 trade was informative to us. Consistent pushback on Z6: what about the new Fed Chair? The market seems to believe Z6 cannot selloff much due to Powell's dovish replacement. Our counter: it takes at least 7 FOMC voters to make a rate decision; we are skeptical Trump can sufficiently stack the Fed deck by end '26 to cut rates without data cooperation. The market views around Z6 suggest it will likely take overwhelming economic evidence to have market believe in a higher cutting trough. We also believe that a market focused on a dovish Fed chair in insufficiently pricing upside inflation risks; we like positioning for this risk via higher 2y3y inflation.

We still hold our pay Dec '25 FOMC OIS view. Our US economics team remains firmly of the view that near-term tariff inflation remains in the pipeline & should see end '25 core PCE at 3% or higher. If core PCE is headed to 3% or higher the Fed will likely struggle to justify the 50+bps of rate cuts currently priced by the Dec FOMC meeting. Due to risks of rising near-term inflation, we continue to remain comfortable being paid Dec '25 FOMC OIS (current 3.82%, open 3.78%, target 4.25%, stop 3.50%). This also works with a Fed that shifts their median '25 dot higher by 25bps at the June FOMC (see below).

For the remainder of this report we discuss the June FOMC & recent reg developments.

June FOMC: higher dots, limited guidance

The rates market expects the June FOMC meeting to keep policy on hold & continue to signal data dependence on the rate outlook. Our economists expect the median Fed dot in '25 will rise by 25 bps to signal only 1 cut this year (it takes 2 dots to shift upwards from the median to trigger the shift). They also expect the median dot in '26 to remain unchanged at 3.375%. Powell guidance in the press conference is expected to reiterate uncertainty & data dependence, he will likely note recent inflation data is encouraging.

For rates, Fed communications could pare back cuts by end Dec '25 (via the shift higher in the '25 median dot) but are unlikely to be materially market moving out the curve. Move in the '25 median should help our paid Dec FOMC OIS view. Applying the average historical spread between 1y ahead dot and market pricing (Exhibit 7), we see about 17bps for implied end '25 rate to increase if dots shift up by 25bps. This relationship also suggests the scope for 8bps of Dec '25 rate decline if dots stay the same.

Regs & spreads: SLR movement but no shift in view

There is finally some progress on financial de-regulation in the US. Bowman has been confirmed as Fed Vice Chair of Supervision & FDIC / OCC submitted notice of a pending proposal on SLR to be released at an unknown date. On

Judging by the title of the FDIC proposal, we expect the FDIC proposal to look very similar to what the Fed + Treasury + OCC proposed in 2018 for GSIB eSLR and TLAC. We continue to believe lowering eSLR will not increase bank demand for USTs, given that banks already freely swap from reserves to USTs without generating SLR capital consumption (see SLR & USTs: it won't matter much). We also believe that lowering eSLR will not increase dealer capacity to hold or fund USTs. For regulatory capital, the Holdcos today are effectively "overcapitalizing" their dealer subs to cover the bank subs' capital needs. This means that total demand for USTs is not likely to increase for dealers or the GSIBs on a lower eSLR. We see scope for SLR disappointment (see: SLR update).

We continue to believe the next big spread theme will come at the front end via (1) elevated supply after debt limit increase (2) UST WAM shortening. These themes will likely become clear in July with debt limit resolution & focus on Aug refunding.

Bottom line: we adjust trade recommendations due to recent mixed US data & shifting back-end rate sentiment (close pay July FOMC OIS, pay Z6, & 10s30s steepener). Fed dot plot shift next week should support our pay Dec '25 FOMC OIS view.

Rates – EU

Sphia Salim
MLI (UK)

Edvard Davidsson
MLI (UK)

- Data on Japanese flows in EGBs surprised those looking of more Japan buying.
- We would not take April data as representative of the outlook ahead. We remain positive on demand, especially in the periphery and small semi-core issuers.

A (not so dramatic) look at Japan flows in EGBs

As the market has focused on potential increased foreign demand for EGBs since liberation day, this week's Japanese BoP data attracted attention as it provided details of Japanese foreign bond buying in April. The data showed large selling of European govt bonds led by net outflows of €9bn from German debt, surprising therefore relative to expectations. However, we would not read that as negative signal for future flows.

- Japan selling of core Euro bonds was large (over 3 stdev for German debt – Exhibit 8), but it came alongside selling of USTs, and the flows emanated mainly from banks. We believe this is more the result of momentum trading in duration than related to a desire to reduce exposure to EGBs. We note that there were net purchases in other core EGBs, albeit with lower volumes.
- Also, since May, we've seen large net buying of foreign bonds by Japanese investors, with cumulative levels around €25bn, including by lifers and pensions. We believe the regional split of these flows will be more relevant to the medium-term outlook for EGB demand from Japanese investors. We remain positive on demand for EGBs, especially in periphery and small semi-core, with diversification a key driver.

Exhibit 8: Japanese net outflows to EGBs, EUR bn
Non-Germany core EGBs saw inflows during the month of April

Region	April	z-score April	Last 3 months cum.	Last 6m cum.
Germany	-9.0	-3.3	-4.3	-5.0
Finland	0.0	0.2	0.0	0.2
Netherlands	0.6	1.2	-0.2	-3.3
Austria	0.1	0.1	0.3	0.1
France	1.7	0.9	3.1	-6.2
Ireland	1.0	2.0	1.8	3.9
Belgium	0.2	0.7	0.9	-0.2
Spain	0.4	0.6	0.2	-1.1
Portugal	0.0	-0.2	0.2	0.4
Italy	-1.2	-1.0	2.0	0.4
Greece	0.0	0.1	0.0	0.0
Europe	*-6.5*	*-1.0*	*3.1*	*-10.8*

Source: Bloomberg, BofA Global Research

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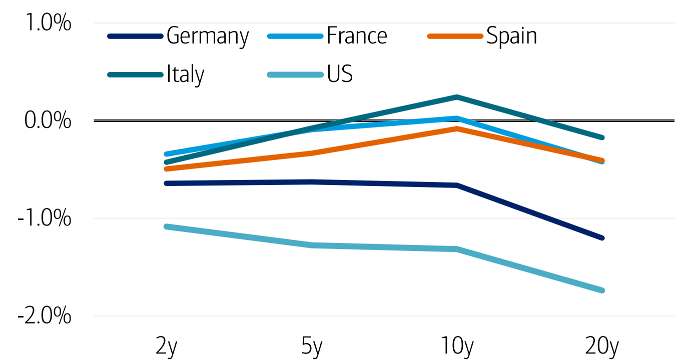
Exhibit 9: 3m FX hedged pick-up for Japanese investors, %
French and Italian bonds offer FX-hedged pick up



Source: Bloomberg, BofA Global Research

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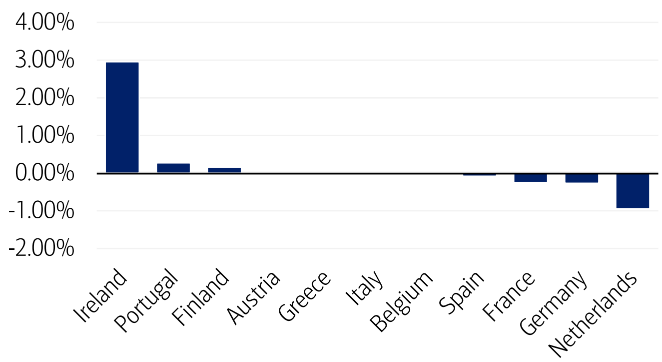
In semi-core space, France has historically been a major beneficiary of Japanese investment flows, but this trend reversed starting in FY 22/23 as JGB yields rose. Over that period and up until the last few months, Japanese investors have been large sellers of French bonds. In February and again April, there was net buying, but whether this is a turnaround is not certain. On the positive side, France is one of few large core/semi-core sovereign issuers that offers positive FX hedged yield pick-up for Japanese investors (see Exhibit 9). Secondly, with periphery bonds outperforming, the give-up in French bonds vs Italy has reduced significantly (10y ITA-FRA spread currently trading at 22bp after falling more than 60bp over the last 12 months). Lastly, the fear of additional credit rating downgrades may, at least momentarily, be eased, as all rating agencies affirmed their current rating of France in their latest revisions and will not be reviewing the sovereign again until Fitch comes back in September.

However, while Japanese flows can be supportive, we are now more cautious on OATs, having been bullish over Mar-May. France faces elevated levels of net supply over the upcoming four months (see: European Rates Supply Preview: Week ahead 09 June 2025), and political risks are bound to re-emerge as the 2026 budget is being derived, potentially reviving the need for new parliamentary elections this year. Belgium faces similar fiscal difficulties as France, with similar long-term downside risk in ratings.

Ireland has been an outperformer within the semi-core sector and has experienced a wave of credit rating upgrades. Japanese flows in Irish govt & corp debt securities have been particularly large, relative to outstanding volumes (see Exhibit 10). There, the growth and rating outlook may be less certain in 2025-26 (see Spreads EU). But more generally, if there is continued increased preference for smaller issuers by Japanese and other foreign investors, this can have greater impact, especially since several of them have expected net negative supply for the remainder of 2025.

Exhibit 10: 6m cumulative net flow from JP / total long term debt securities

The impact of Japanese flows has solid potential to impact smaller issuers



Source: ECB (values represent end of 2024), Bloomberg, BofA Global Research

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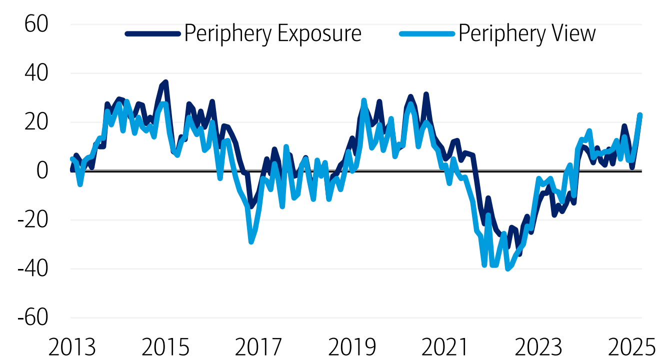
Exhibit 11: FXRS Survey, EUR periphery sentiment and exposure

EUR periphery duration exposure and sentiment highest since 2020



Source: BofA Global Research

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The periphery has been a recent outperformer, showing resiliency despite the rise in Bund yields in March and market turmoil in April. Periphery bonds have seen Japanese inflows during 2025 (see Exhibit 8). Furthermore, we can see from our FX and Rates Sentiment Survey that investors are increasingly positive the periphery (Exhibit 11).

While we see long term debt sustainability as a fair concern, and expect slower growth going forward, Italy has also enjoyed a period of political stability, a credit rating upgrade from the S&P in April, and a positive outlook revision by Moody's in May. BTPs also offer improved liquidity relative to prior years, and positive yield pick up on an fx-hedged basis. This could be particularly attractive when it comes to diversification away from US corporate bonds. Indeed, we continue to think that the improved pick-ups will lead Japanese investors to cover the underweight built in EGBs vs US corporate bonds over the last few years (see US bond outflows into EUR? In search of quantifications).

Spain and Portugal remain rare examples of fiscal prudency within the EA region, and have seen continuous credit rating upgrades as well as yield compressions derived from it. Portugal has recently enjoyed inflows from IG bond funds, but Spain has the potential for more serious investment flows. So far this year, Japanese buying of Spanish bonds have been moderate in volumes. However, as core EUR and USTs offer low fx hedged pick-ups, French uncertainty may grow into year-end, and Italian growth may slow, Spain has the potential to become a new favourite for investors focused on fiscal prudence, with those valuing more liquidity likely to add to Italy (and France).

For EGBs in general, we remain positive on the supply/demand dynamics, and see scope for both term premia to correct lower (see Global term premium moves reveal value) and 10y-30y curves to flatten vs other regions (see Big Bang bond steepening).

Rates – UK

Agne Stengeryte, CFA
MLI (UK)

Mark Capleton
MLI (UK)

- Our confidence in an at least quarterly cutting path has been propped-up recently. Risk-reward in receiving November MPC-dated Sonia looks attractive.

Keeping the faith

Careful (not cautious) hold

Our economists expect the Bank of England (BoE) to keep Bank Rate on hold at 4.25% at its June meeting next week, with a 7-2 vote (2 votes for 25bps cut) and risks of a more dovish pattern (for more, see BoE preview, 12 June 2025). Even though April inflation strength was likely noisy (we expect a reverse in May, out a day before June meeting), the upside surprise will nonetheless make an uncomfortable print for the BoE. Meanwhile the US/UK trade deal and US de-escalation with China also cap severe downside risks to UK growth from tariffs (likely to be lower vs. pre-liberation day still).

We expect the BoE to retain the careful, gradual and meeting-by-meeting bias and the need for policy to remain restrictive due to uncertainty. The MPC is also likely to keep optionality by noting that "Monetary policy is not on a pre-set path. Barring big upside surprises in May inflation, we expect the minutes to imply that a summer skip to quarterly cuts (an idea that gained traction after Pill's cautious speech and April inflation) is less likely. This could be by emphasizing that progress in underlying inflation is continuing amid looser labour market, lower pay awards and weaker growth.

We expect cuts in August, September, and November to 3.5%, with a dovish pivot in H2 once the near-term inflation hump is out of the way and the disinflationary/growth hit from tariffs is more evident. Though we acknowledge that elevated domestic inflation puts our call for September cut at risk, we think the bar to cut less than quarterly is high.

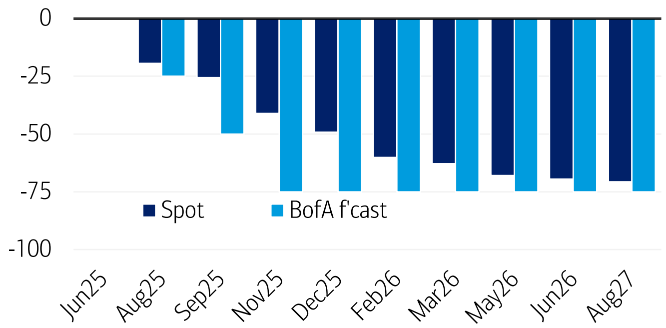
Data builds in favour of cuts after setback from MPC messaging

The Bank has said that it will need to see sufficient progress in inflation, with the outlook for Bank Rate cuts importantly relying on continued slowing of wage gains. This week's data provided encouraging evidence of labour market and wage moderation (while acknowledging that the monthly wage numbers are volatile). This, alongside other evidence of a moderating inflation picture – the Decision Maker Panel (DMP) noting lower price and wage expectations in May, the Office for National Statistics (ONS) reporting that there has been an upside error in the April CPI numbers worth 12bps – and weaker monthly GDP on Thursday, all prop up our confidence in at least quarterly Bank Rate cuts being delivered for the rest of 2025.

The rates market is not expecting the Bank of England (BoE) to cut Bank Rate next week, and nor do we. But our projection of three sequential 25bp Bank Rate cuts starting in August implies a faster rate cutting pace than assumed by the market, with the divergence particularly notable in November (Exhibit 12). 1y1y Sonia is almost back to post-May Monetary Policy Committee (MPC) yield levels, with another 13bp rally needed to erase the underperformance after the hawkish surprise at the May MPC. This week's labour market data provided the latest bout of support (Exhibit 13).

Year-to-date, 1y1y Sonia is some 40bp richer relative to EUR and CAD OIS and broadly flat versus 1y1y USD and AUD (Exhibit 14). On a relative basis, 1y1y Sonia looks rich relative to 1y1y SOFR over the past 12 months (Exhibit 15). Still, relative to our economists' global outlook, our Fed call vs. market pricing stands out as the sharpest contrast to what we expect in the UK. Low positive directionality as of late between Sonia and SOFR would be helpful, if persisting, allowing Sonia to perform relative to SOFR further (Exhibit 17). Our team in the US retain their underweight bias at the front end of the curve and hold paid SOFR Z6 position (for more, see Rates – US of Global Rates Weekly published on 6 June 2025).

Exhibit 12: MPC-dated Sonia rate cut pricing, bp
Market pricing in around one 25bp cut less than our base case by end-2025



Source: Bloomberg, BofA Global Research

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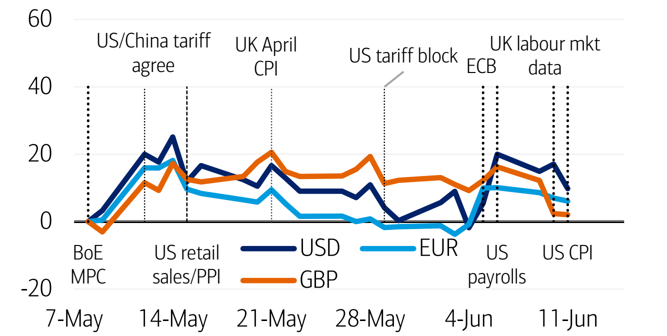
Exhibit 13: 1y1y OIS changes since May MPC, bp
1y1y Sonia almost back to the levels of the May MPC aftermath



Source: Bloomberg, BofA Global Research

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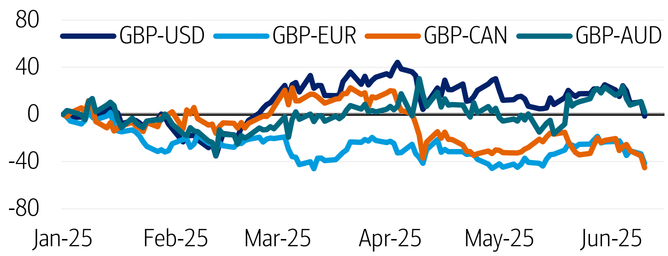
Exhibit 14: 1y1y OIS changes year-to-date, bp
Back to flat relative to 1y1y USD and AUD, 40bp rich vs. CAD and EUR



Source: Bloomberg, BofA Global Research

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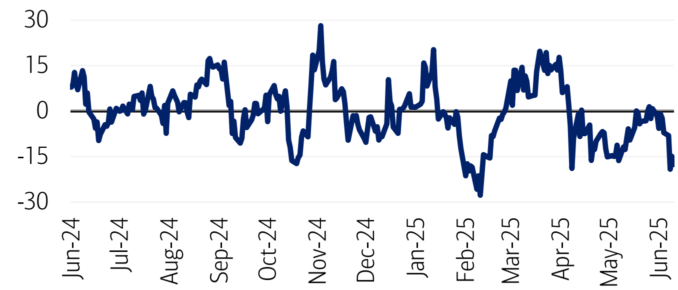
Exhibit 15: 1y1y Sonia vs. SOFR regression residual, bp
1y1y Sonia appears on the rich side over the past 12 months



Source: Bloomberg, BofA Global Research

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Back in the UK, risk-reward of receiving November MPC-dated Sonia appears attractive to us with the November contract not yet pricing in two 25bp Bank rate cuts fully (while our base case is three 25bp cuts by November).

- We receive November MPC-dated Sonia at 3.78% targeting 3.50% with a stop of 3.95%. Risk to our trade is stickier than anticipated inflation.

Exhibit 16: Central bank rate change expectations, market and BofA
Our Fed call vs. market stands as the most opposite to the case in the UK

	(%)	Next change (bp)		Change by end-2025 (bp)		
	Current	BofA	Market	BofA	Market	Diff
Fed	4.375	Jul'26 (-25)	Oct'25 (-32)	0	-48	48
ECB (depo)	2.00	Sep'25 (-25)	Dec'25 (-26)	-50	-26	-24
BoE	4.25	Aug'25 (-25)	Sep'25 (-26)	-75	-50	-25
BoC	2.75	Sep'25 (-25)	Oct'25 (-27)	-75	-23	-52
RBA	3.85	Nov'25 (-25)	Aug'25 (-41)	-50	-78	28

Source: Bloomberg, BofA Global Research

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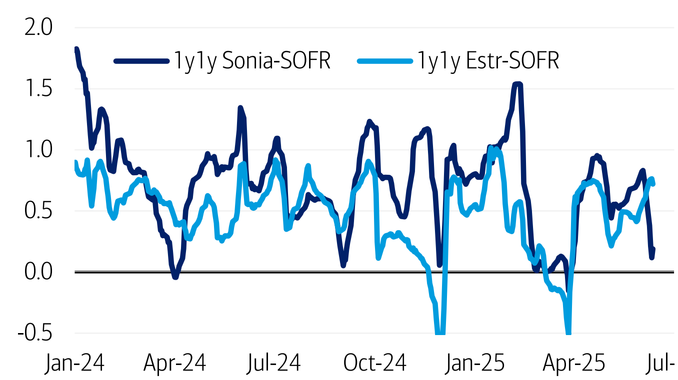
Exhibit 17: 1y1y Sonia and Estr directionality to SOFR
Low directionality between Sonia and SOFR lately



Source: Bloomberg, BofA Global Research

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Rates – AU

Oliver Levingston
Merrill Lynch (Australia)

- Investors focused on positive spillovers from potential dedollarization on our trip to North America
- The jury is out on dedollarization but robust demand profile for AUD fixed income as underpriced in spreads.
- We are constructive on invoice spreads (i.e. swap EFP) and AUD semis on ASW.

AUD is highly sensitive to the dedollarization theme

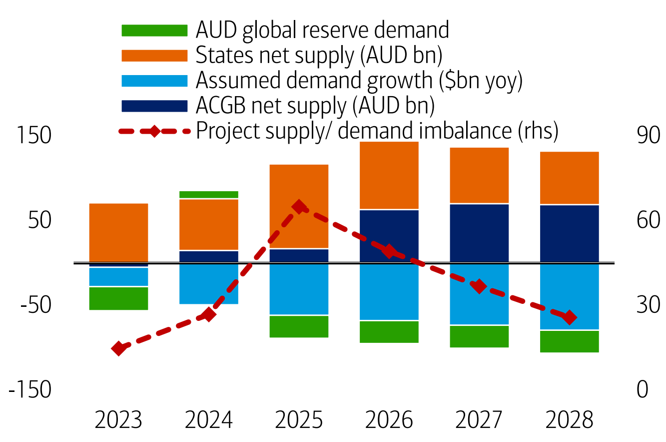
Positive spillovers from potential, global asset reallocations were in focus on our investor trip to New York, Boston and Toronto. The jury is out on the extent to which global asset managers can or will relocate from USD assets, especially in the near term, but we see the robust demand profile for AUD fixed income as underpriced in spreads.

Bonds are trading unusually cheap vs swap because deficits are projected to rise over the coming years but even small shifts in reserve manager demand for AUD assets could have a significant impact on price levels in AUD fixed income. Demand from global reserve managers and AU superannuation funds is likely to exceed supply by 2027/28. Tailwinds from potential bank deregulation and embedded LIBOR-OIS risk in AUD swaps present further upside for spreads (see report Australia Rates Viewpoint 28 May 2025).

Robust demand for AU debt

The broader demand profile for AU bonds is strong demand for AUD bonds Super funds' assets under management have expanded at 11-12% since 2023, far outpacing AU GDP. Although super funds' fixed income asset allocation has remained broadly unchanged around 12-13% of assets under management since 2014, rapid growth in super funds' total assets under management has meant their footprint in AUD fixed income markets has increased substantially.

Exhibit 18: AUD bond demand to outstrip supply by 2028
Higher supply/ demand imbalance = higher excess supply



Source: IMF, AOFM, State Funding Agencies,

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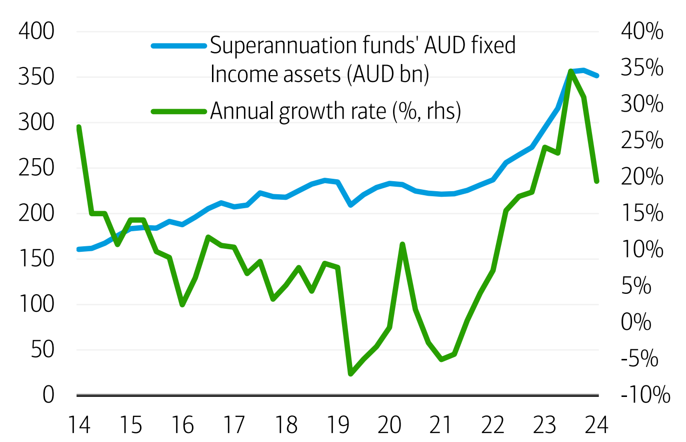
Exhibit 19: Super funds' fixed-income footprint has increased markedly
Super fund assets under management are increasing



Source: APRA

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Offshore AUD demand: rotation from North to South Asia

Although State data is a little sparse, we aggregate ownership by investor type from the three largest issuers, QTC, NSW Treasury Corporation (NSWTC) and TCV. The data suggests a steady pick-up in official institutions' share of purchases in 2025, alongside robust growth in asset managers' share of purchases. In our view, a durable bid from reserve managers is a function of steep AUD yield curves, a general safe-haven bid for Australia and the decline of China property bond complex. All of these trends look set to endure (if not intensify) in the coming years.

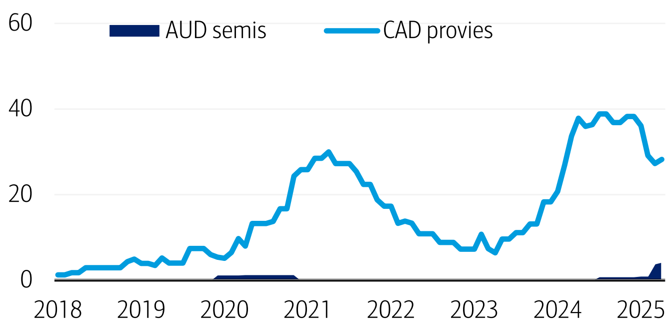
CAD provincial issuers provide a template for AUD semis

We are broadly constructive on AU semi-government issuers. Canadian investors highlighted striking parallels between the AU semi-government issuers and Canada's provincial bond complex. AUD semi issuance has picked up in 2025, including a May 2035 EUR-denominated issue in May 2025, but remains well below the CAD provincial market. We see Canadian provinces as a template for AUD semi issuance over the medium to long term. Offshore issuance should release pressure on domestic funding programs and cap semi-ACGB spreads

We are broadly constructive on the sector and recommend buying TCV 5.5% Sep 2039 bonds, paying 10y swap (current 130bps, entry 133bps, target 100bps, stop 148bps). The 3m carry and roll of this structure is +2bps. Risk: wider semi spreads in a policy-driven, risk-off event. In the front end, we continue to remain constructive on Kangaroos/ SSAs given spreads remain quite wide vs semis/ ACGBs (but much tighter in the long run).

Exhibit 20: CAD provincial vs AUD semi-government offshore issuance (rolling 12m, USD bn)

AUD semi issuance has stepped up over the past 12 months but remains well below CAD provincial issuance



Source: Bloomberg

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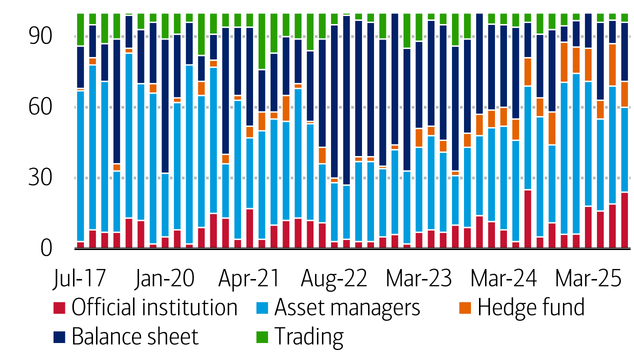
Exhibit 21: QTC, TCV, NSWTC syndications by investor type

Official institutions' share of purchases at syndications has surged close to all-time



Source: State funding agencies

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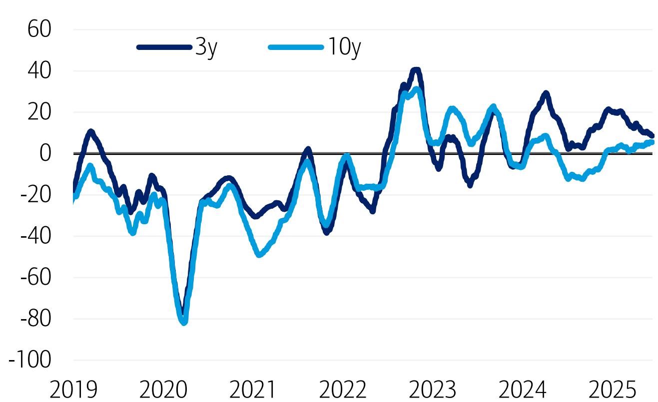
Exhibit 22: Issuance premium AU vs US (higher = cheaper AUD funding)

More attractive to issue in long end but the 3y/10y premium has narrowed



Source: Bloomberg

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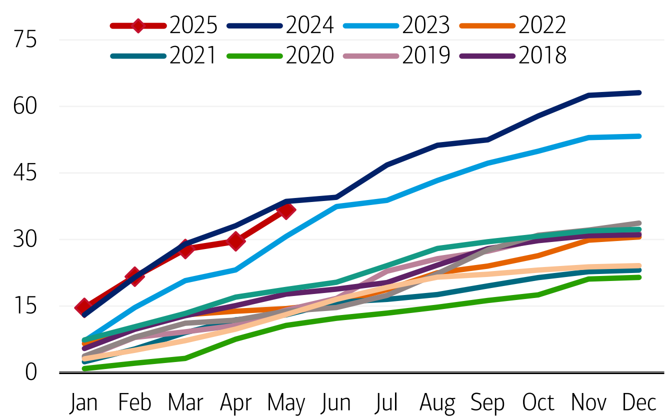
Exhibit 23: Kangaroo bond issuance by month (cumulative YTD)

Kangaroo issuance has surged alongside super fund AUM growth



Source: Bloomberg

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Rates – JP

Tomonobu Yamashita
BofAS Japan
tomonobu.yamashita@bofa.com

Shusuke Yamada, CFA
BofAS Japan
shusuke.yamada@bofa.com

- LDP wins = fiscal discipline + political stability; LDP loses = fiscal & political risk to increase
- Risks skewed to steeper curve & weaker yen; next week could be a pivotal pre-election week for JGB & JPY with key events

This is an excerpt from Japan Viewpoint, 11 June 2025

Importance of Upper House elections in July

The Ishiba administration's unstable approval ratings suggest that it may struggle to hold the incumbent seats that are up for reelection. If the LDP (Liberal Democratic Party)-Komeito coalition loses its majority including the seats not up for reelection, this would create the risk of a change in prime minister and a loss of cohesion for the current coalition. Meanwhile, the lack of a unified opposition party could continue to benefit the LDP. A favorable election result for the LDP could return the Ishiba cabinet to a firmer footing and the market may assume enhanced political stability.

Flashpoint is fiscal policy

Opposition parties' flagship commitment is a cut to the consumption tax, which contrasts with the LDP's caution about tax cuts. The results of the Upper House elections could boost opposition parties' negotiating position in future fiscal negotiations and make their campaign promises more likely to feed into policy.

Market implications: JGB curve steepening bias remains

The Upper House election results could have a considerable impact on cash JGBs, particularly superlong issues. Major opposition parties are advocating aggressive fiscal policy while the LDP appears to place more importance on fiscal discipline. We think an LDP loss would cause the JGB curve to steepen, while a win would cause it to flatten slightly. We expect more of an upward bias for superlong yields than for other maturities, though this will depend on the outcome of the 20 June Meeting of JGB Market Special Participants.

We think the number of BoJ rate hikes priced in by the market will also change depending on whether the LDP wins or loses the election and how US-Japan negotiations play out. The major opposition parties have indicated that they are against raising interest rates, and we therefore think an LDP loss would cause the market to price out BoJ hikes further. However, the market currently prices in only 0.64 rate hikes through the December 2025 MPM. The 2yr forward 6m OIS rate, which we view as the terminal rate that rates markets factor in, is also around 0.97%. While we would expect front-end yields to fall on an LDP loss, we think the trading band after the Upper House elections would be narrower than for superlong cash bonds.

Next week could be a pivotal week for the market with key events: G7 summit (June 15-17); BoJ to discuss its QT policy at June MPM (June 16-17); MoF-broker meeting (June 20); end of parliamentary session (June 20).

Front end – US

Mark Cabana, CFA
BofAS

Katie Craig
BofAS

- IORB elimination odds are low but could have a large impact for Fed policy implementation & bank NIM / liquidity practices
- Fed would offset IORB with RRPs, faster QT, or asset sales; total gov't $ benefit = lost bank NIM from non-paid reserves

This is an excerpt of Eliminating IORB: low odds but high impact

Eliminating IORB: unlikely, but potential game changer

Clients have asked about Senator Cruz comments around eliminating Fed interest on reserve balances (IORB). We see this as a very low probability outcome but large impacts if it happens. We see low odds due to (1) strongly held Fed & commercial bank preferences (2) limited efficacy for aim of deficit reduction. We elaborate below.

Fed & bank IORB preference: magnet & easy liquidity

Both the Fed & commercial banks like IORB. Recall, IORB is the interest rate paid to banks for holding overnight cash with the Fed (see appendix for detail). The Fed likes IORB because it serves as a "magnet" for other money market rates & allows for a simple & efficient transmission of policy. Banks like IORB because it provides an attractive return on cash that does not penalize them for holding prudent intra-day liquidity. The Fed's "ample reserve" operating regime is built around IORB.

Lower IORB => higher Fed remittances, in theory

Media reports suggest Senator Cruz believes eliminating IORB could "save" $1.1tn over 10Y; we might imagine he arrives at this number by taking ~$3tn in reserves paid at an average rate of 3.65%-ish ($110b/y) over 10Y. In theory, eliminating IORB would enable the Fed to remit an equivalent amount of similar interest income to the US gov't. Recall, the Fed typically remits to US Treasury the excess of their interest income (mostly USTs & MBS) vs operating costs (mostly IORB & RRP). We estimate Fed remittances would be ~$165b/y today if no IORB or RRP expense.

No IORB cost = lower rates & bank liquidity challenges

In practice, removing IORB has costs esp for Fed & banks. The total gov't benefit would likely be much less than the $1.1tn / 10Y estimated. We offer thoughts on costs.

Fed costs: if unable to earn IORB banks would shift "excess" reserves out of Fed & into money markets, resulting in downward rate pressure. The Fed would offset this pressure via RRPs, faster QT, or asset sales. Each of these options would result in lower Fed remittances (higher RRP expense = lower remittances, smaller Fed B/S = lower interest income). We might guess banks move $500b-$1t+ of "excess" from reserves that would need to be absorbed by the Fed & see an equivalent reduction in remittances.

Bank costs: if unable to earn IORB banks would see (1) lower NIM (2) less optimal liquidity options. Lower NIM would come from the lost interest income of reserves kept with the Fed (banks would hold some Fed reserves for intraday liquidity need). Banks would have less optimal liquidity options via money market investments (RRPs, bills, short UST coupons, etc). These are less optimal b/c they are not intra-day liquid.

On net, the total gov't $ benefit would equal lost bank NIM from non-renumerated Fed reserves. The gov't benefit would be further eroded by less optimal bank liquidity management practices, which raise banking system risks.

Market FAQs: lower rates & smaller FF volumes

We address FAQs on some potential market impacts of IORB elimination. Bottom line: Fed RRP terms will likely be adjusted to offset rate impact, fed funds volumes will drop for a time, & money market volatility will rise.

What will happen with ON RRP or other RRPs?

The removal of IORB will likely drive rates lower, but the question is to what extent. As banks shift "excess" out of reserves into money markets rates will decline and front-end spreads richen. ON RRP would likely be a very soft floor on interest rates and front-end rates could fall below the bottom of the target range without an adjustment.

The ON RRP has a counterparty limit of only $160b and not all banks are signed up, but these constraints can be adjusted quickly and the aggregate limit of the facility is only limited by the value of SOMA Treasury holdings (currently $4.2tn, well above the current level of reserves $3.4tn). The Fed would adjust RRP terms to maintain rate control.

ON RRP is not seen as liquid as reserves, so banks who prefer to hold more liquid cash in case of unexpected deposit outflows may not want to risk parking their cash at the ON RRP. Banks would likely search for places to invest cash that earned some interest but remained very liquid or face the high opportunity cost of earning no interest on reserves.

What will happen to fed funds?

We assume fed funds volumes would initially drop sharply. The drop in fed funds volumes would occur because most of the current transactions are driven by foreign banks borrowing reserves from FHLBs and parking them in their reserves to earn a spread between the FF rate and IORB. Without IORB, the ability to arb this market goes away. Fed funds would offer little information value on very light volumes.

We assume the FF rate would likely trade close to or slightly above the Fed RRP offering rate. Any FF activity would still likely be benchmarked off repo but the limited borrowing activity would be from banks that truly need liquidity. We might guess the SOFR/FF spread would be near to or slightly tighter vs today without FHLB activity. However, we have low conviction in the SOFR/FF view & more conviction in lower FF volumes.

Will money market rates be more volatile?

Yes, money market rates will be more volatile. The volatility would be due to smaller reserve balances held with the Fed & more visible swings in bank reserves around key payment dates (i.e. tax dates). The swings in bank reserves would be absorbed most directly with standing Fed RRP operations. Fed RRP sizes would likely change materially with bank reserve holdings & shifts in the US Treasury cash balance.

Will the Fed ON RRP facility continue to exist?

If Congress removes Fed authority to pay IORB it could potentially next target the Fed ON RRP facility (which have a wider counterparty set vs standard primary dealer OMOs). If Congress were to target expanded Fed ON RRP counterparties we assume they would not challenge Fed authority to do primary dealer RRPs. Increased Fed dealer RRP reliance would likely accelerate the timeline to Fed centrally clearing of its repo operations.

Bottom line: removing the Fed's power to pay IORB is low probability but high impact. It would change how the Fed implements monetary policy, challenge bank NIM, & create more challenging bank liquidity management practices. On net, the total gov't $ benefit would equal lost bank NIM from non-renumerated Fed reserves. The gov't benefit would be further eroded by less optimal bank liquidity management practices, which raise banking system risks.

Front-end – UK

Agne Stengeryte, CFA
MLI (UK)
agne.stengeryte@bofa.com

Mark Capleton
MLI (UK)
mark.capleton@bofa.com

- Bank's intention to increase ILTR's minimum spread over Bank Rate on bids against Level A collateral to 3bp surprised us.
- We think that there is a danger that this change could detract from the ILTR's appeal, unravelling the BoE's good intentions.

Below is an excerpt from Indexed Long-Term Repo recalibration: is the Bank shooting itself in the footnote? published on 11 June 2025.

Is the Bank shooting itself in the footnote?

ILTR recalibration was mostly in line with the proposals…

The BoE confirmed today the recalibrated parameters of the ILTR operation on the back of feedback received on December's discussion paper. These changes will be made with effect from 17 June (Recalibration of the ILTR Operatopm, 11 June 2025):

- **Total amount of reserves available per auction** will rise from £25bn to £35bn (i.e., the maximum stock of reserves available will rise to £840bn);
- **The quantity of reserves available at minimum clearing spreads** will rise from £5bn to £8bn per auction (i.e., the maximum stock of reserves available at minimum spreads will rise to £192bn); and
- **A gentler upward sloping supply curve than previously for quantities above what is available at minimum spreads:** it is expected that reserves in excess of the "quota" available at minimum spreads will be provided at around 20bp-40bp above Bank Rate when drawing against Level C collateral and more cheaply when drawn against more liquid collateral.
- **The minimum bid amount** will fall from £5mn to £1mn.

These changes were broadly in line with the discussion paper proposals to raise the total amount of reserves available per auction to at least £30bn and to increase the quantity of reserves available at fixed minimum spreads to £7-10bn per auction. No changes were made to the relative amounts available for each collateral set (up to 50% of the £8bn of reserves available at minimum clearing spreads set aside for bids against less liquid collateral sets, i.e., £3.2bn and £0.8bn for Levels C and B, respectively.

… but the Level A minimum price increase surprised us

While the above-mentioned changes were broadly in line with discussion paper proposals, we were surprised by the Bank's intention to increase ILTR's minimum spread over Bank Rate on bids against Level A collateral from 0bp to 3bp.

In the consultation paper, the Bank stated that minimum bid spread will remain at 0bp over Bank Rate for Level A collateral, with a footnote highlighting that: "the previously announced 3bps increase to minimum bid spreads for Level A collateral will no longer be taking place." (see the consultation paper here: Transitioning to a repo-led operating framework, 9 December 2024).

It was therefore unexpected to learn that this change is now scheduled to take effect in November 2025, following the substantial repayment of drawings under the TFSME, with the effective date to be confirmed ahead of time in a Market Notice due to be published in November. The introduction of this 3bp spread above Bank Rate "is intended to balance incentives for participants between the STR and ILTR facilities against Level A collateral by more closely aligning the effective costs of the facilities given the longer tenor of the ILTR".

The 3bp impediment to the desired shift from STR to ILTR

Last week, BoE's Catherine Mann reiterated that "in principle, the ILTR is intended to supply the majority of reserves in steady state" (Quantitative tightening and monetary policy stance, 2 June). As things stand, the ILTR's share of reserve provision has increased from around 15% at the start of the year to 25% currently.

While the 3bp calibration for ILTR drawings against level A collateral is small and might appear to make sense in the context of current market term repo levels, we do think that there is a danger that this change could detract from the ILTR's appeal, unravelling the BoE's good intentions. After all, one benefit to using ILTR vs STR has been the "overhead" costs of more frequent rolls; this will now have a 3bp price.

It will be interesting to monitor how the balance of the additional cost for level A collateral and the lower minimum bid amount impact ILTR's appeal relative to STR for level A collateral-backed drawings.

Lending facilities' flexibility: not entirely off the table

The accompanying feedback statement provided some more colour on the flexibility considered for the BoE's lending facilities (see the statement here: Transitioning to a repo-led operating framework – discussion paper feedback statement, 11 June). According to the paper, several respondents requested greater flexibility in these facilities in the form of increased operation frequency, a greater variety of tenors, or the ability to repay ILTR drawings earlier. The latter two are particularly important, we think.

Switching the lion's share of borrowed liquidity to the ILTR, reducing the operational cost burden (and heightened event risk) of rolling increasingly large amounts each week, would seem to be in the mutual interest of both the Bank and the banks. So we were a little surprised that the operational tweaks made to the ILTR represent the minimum the market expected but no more (although future changes are possible).

The £192bn cumulative maximum that can now be drawn from the facility before paying more than the minimum spread represents about a third of the Preferred Minimum Range of Reserves (PMRR) ceiling, so although the penalty rate for borrowing more than that climbs at a more gradual pace than before, this still seems to be an impediment to it displacing the weekly facility as the main source of borrowed liquidity, especially now that borrowings against Level A collateral will incur the additional 3bp in the ILTR. We worry that the rise in the ILTR's share of borrowed reserves might stall or even reverse.

Victoria Saporta on PMRR: painting the ceiling

In her speech, Victoria Saporta highlighted that the Bank could arrive at the upper end of the estimated PMRR of £385-540bn by Q2 2026 (see Saporta's speech here: Learning by doing, 11 June 2025). While the estimate assumes no further change to STR or ILTR usage for simplicity (our own estimates suggest a slower approach to this estimated PMRR: for more, see Finding the right balance (sheet), 16 May 2025), it is nevertheless important in the context of BoE's Quantitative Tightening (QT) decision in September. In our recent work on QT, we argued that a slowdown in the pace of reserve reduction would be an absolutely sensible step to take with the end of abundant reserves in sight (see Quantitative Tempering, 6 June 2025). The BoE's vigilance on PMRR once again highlights this point.

Spreads – EU

Erjon Satko
BofASE (France)

- Uncertainty and risks weigh on Irish bonds but the market remains resilient
- While bond RV dislocations look small but within this context we pick two examples

Ireland: high growth, but risks on the downside

The Irish GDP numbers are notably volatile and rather than focusing excessively on high-frequency data we would look at country forecasts.

As for the former, the national statistical agency reports a 9.7% yoy GDP increase in Q1 2025 – a very high number in absolute terms and that beat the already high 3.2% prior expectation. The reason behind this revision is mainly related to goods exports, which is a less sticky driver of GDP.

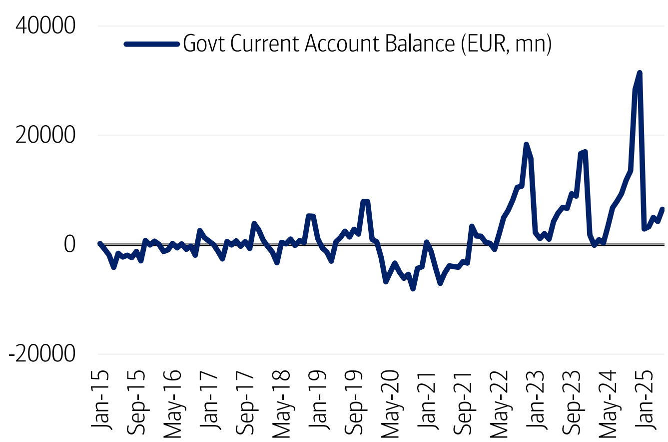
When it comes to forecasts, the Bloomberg consensus sees 2025 GDP growing by 3.7%, the Irish central bank has it at 2.7% while our economists have it at 3.5%.

Indeed, relative to the current consensus the surprises on economic activity are skewed on the downside.

The revision, on the downside, by national institutions is in the order of 0.9% for 2025.

The main driver of these surprises is likely the currently volatile and uncertain international environment when it comes to trade and finance – sector that Ireland is very sensitive to.

Exhibit 24: Irish central government current account
Recent data shows cash surplus



Source: Haver, Department of Finance Ireland

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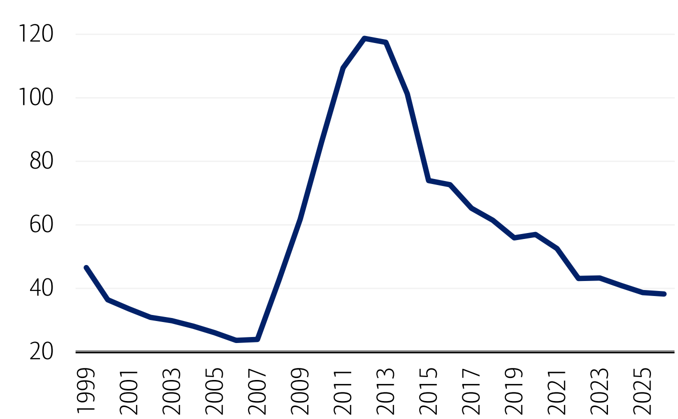
Exhibit 25: Government Debt/GDP
Debt to GDP is seen edging down



Source: European Commission

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Higher risks may mean a pause in the positive rating story

Despite the risks being skewed on the downside, the absolute growth expected for the Irish economy remains high and above 2% until at least 2027.

For credit worthiness, the pace of growth in the current and coming years is, in our view, the most important.

Indeed, credit rating agencies have taken note of this and are currently signalling rating upgrades incoming despite the already high credit worthiness at AA/AA-.

It has to be said that the timing of the current credit rating positive outlooks pre-dates the forecast downgrades. Moody's positive outlook dates from 16-August-2024 while S&P's dates from 15-November-2024.

Will there be a revision of the positive outlook?

We think the pace of revisions is not large enough to warrant it but remain open to this eventuality. Debt/GNI is still expected decreasing, aggressively, to 65% in 2025 (similar to Moody's assumptions).

As a base case, we expect rating agencies to pause rating upgrades until the international trade and finance pictures is clearer.

The next credit review dates for Ireland are on 15 August, 19 September and 7 November for Moody's, S&P and Fitch respectively.

Supply: gross issuance may accelerate marginally

If we assume Ireland is to issue €8bn in 2025 in total (mid-point of NTMA's guidance of €6-10bn), then the treasury currently is ~21% behind schedule in the funding pace relative to 2024.

Even if corporate tax growth is expected to stagnate from here, the NTMA expects positive net tax revenue in 2025 (borrowing requirement expected at negative €4bn).

The latest guidance from the treasury sees redemptions higher than cash revenues and IRISH issuance (at €8bn): this implies a drop in cash reserves from €34bn to €26bn expected at the end of 2025.

Despite this, cash buffers remain large in relation to the size of the country's debt.

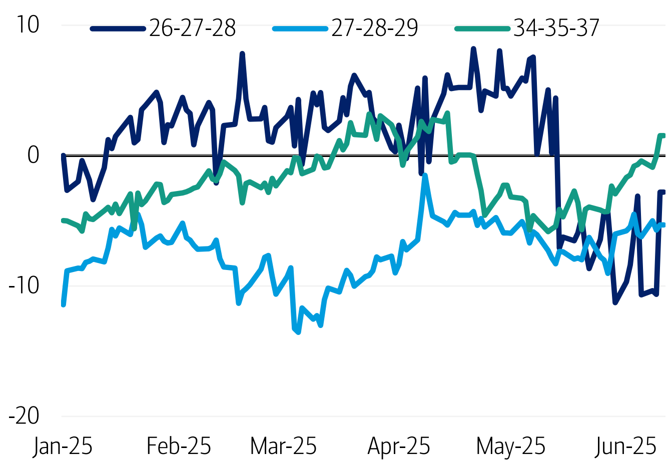
RV: 2031 and 2030 bonds seem marginally rich

The general picture for Irish bonds remains positive, despite the mounting risks.

In the curve, we note the 2027 bond is trading relatively rich on the micro-fly (1.3bp), with the 2028 bond, in particular, causing it.

On micro-slopes, the 2031 bond trades relatively rich (low z-spread) relative to the 2030.

Exhibit 26: Micro fly time series for selected Irish bonds
z-score of z-spread microfly is particularly low for the 2026-2027-2028 Irish bonds



Source: Bloomberg, z-spreads of Irish bonds in basis points

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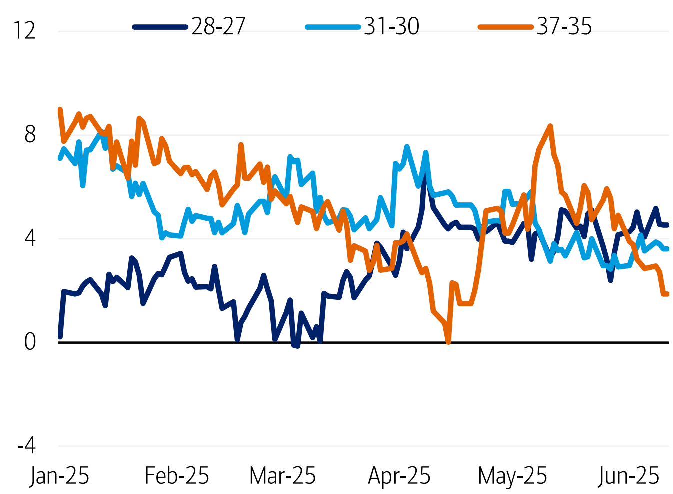
Exhibit 27: Micro-slope for selected Irish bonds
28-27 spread is particularly high



Source: Bloomberg, z-spreads of Irish bonds in basis points

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Inflation – EU

Mark Capleton
MLI (UK)

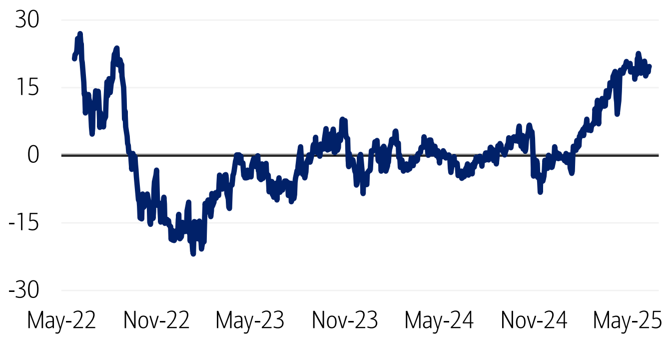
- We suggest OATei 2038/’53 real yield flatteners. Convexity looks cheap once again.

OATei 2053’s convexity value looking oversold

At 20bp, the OATei 2038/’53 real yield spread is back to within a basis point of where it closed on the launch day of ‘38s. It has climbed back to its opening spread (see Exhibit 28) even though the outright yield level is obviously very much higher.

That’s the observed spread move, but how would an actual steepener or flattener position have fared? A steepener would have done better than a flattener but it would have been close. With daily rebalancing to keep a position duration neutral, the carry contribution would have been equivalent to 18bp of steepening. But convexity delivered the equivalent of 16bp of flattening, by our calculations (Exhibit 29 and Exhibit 30).

Exhibit 28: OATei 2038/2053 yield spread back to the launch pad, bp
Spread only a basis point shy of May 2022 opening at the launch of 2038s.



Source: BofA Global Research, Bloomberg

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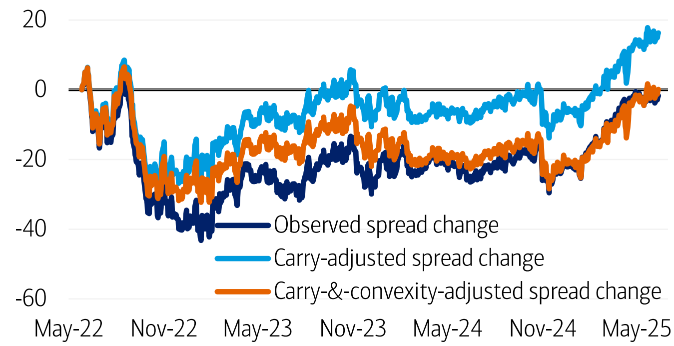
Exhibit 29: Cumulative spread change, with impact of carry & convexity
Carry favoured the steepener, but convexity cancelled carry benefit.



Source: BofA Global Research, Bloomberg

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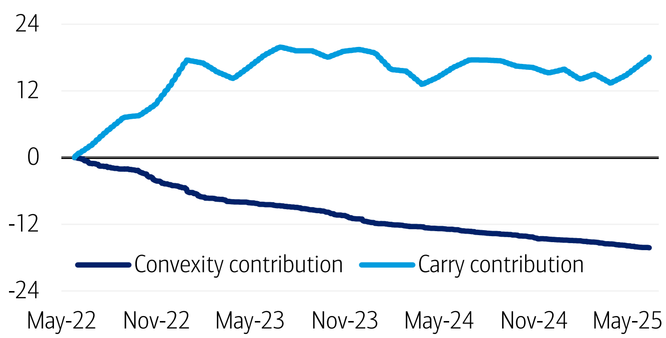
Exhibit 30: Hare & the tortoise: carry started fast, convexity caught up
Cumulative contributions from carry and convexity, bp



Source: BofA Global Research, Bloomberg

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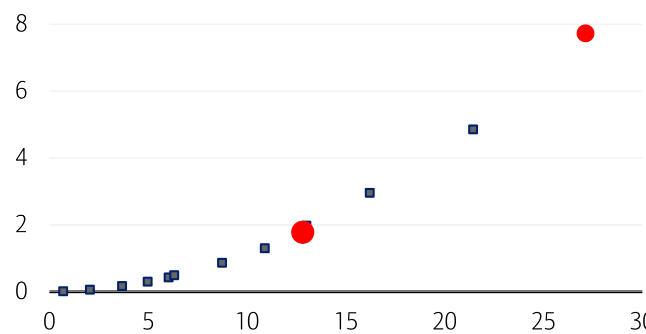
Exhibit 31: 2053’s advantage – a much higher convexity/duration ratio
Convexity vs modified duration, highlighting OATei 2038s and 2053s.



Source: BofA Global Research, Bloomberg

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However, Exhibit 30 also shows that the carry advantage for the steepener was all about 2022, when inflation was very high. It has tracked sideways since, with the convexity benefit to flatteners catching-up. In the subdued inflation environment we expect, convexity should have the upper hand, accreting steadily in the background. It now looks underpriced to us, and **we would enter the OATei 2038/2053 flattener at 20bp, targeting 0bp with a stop-loss at 30bp**. Risk to the trade is heavy supply of 2053s that is poorly received.

Technicals

Paul Ciana, CMT
BofAS

- Yields have risen in Q2 in line with a series of technical patterns and signals. US 30Y yield recently spiked to 5.15% which is near the Oct-2023 high of 5.18%.
- Spikes help to signal key turning points especially when they occur at extreme levels with stretched positioning and sentiment. The spike in 30y yield this year tested a key level, which is notable, but presence of other conditions was less so.
- Trend following indicators and patterns favor yield uptrends. Sentiment is hesitant to buy. A spike in yield where 30Y makes a higher high such as +/- 5.30% and ends the same period (day, week, month) below 5% may signal buying interest or top.

For more please see: BofA FAQs: Could Treasury yields spike again in the second half of the year? 11 June 2025

US 30Y Yield: Spikes are in the air

Exhibit 32: US 30Y yield – Monthly chart

Seven double tops in the secular bull market from the 1990s through 2020. Will yield double top in a secular bear market, too? Only if buyers emerge in the low 5s. If spikes begin to form around the 5.18% area and buyers emerge in BofA flows, then potential for a double top for the cycle increases.

Source: BofA Global Research, Bloomberg

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Rates Alpha trade recommendations

Exhibit 33: Global Rates Trade Book - open trades

Open trades

	Open Trades	Entry Date	Entry	Target	Stop	Latest Level	Trade rationale	Risk
	Receive 5y5y "real ESTR" rate	14-May-25	74	25	100	71	Real rate too far from "neutral"	Robust economic growth in the Eurozone
	Long 10y Spain vs Germany & Italy	9-May-25	25	15	31	25	Spain richens back on credit fly	Italian upgrade, Slow capex in Spain
	2y3y/5y5y Euro inflation steepener	2-May-25	20.0	35.0	10.0	21.5	Swift fall in inflation	Stalling disinflation
	Receive BTPei 2033-39 fwd yield	1-Apr-25	358	300	400	339	Bullish call, RV, index events	Generalized Italy cheapening
	Long EU 30y vs Netherlands	28-Mar-25	72	60	80	68	EU cheap to NL, on supply concerns	Large increase in EU bond supply
Europe	Receiving 6m1y EUR vs CHF	14-Mar-25	176bp	130bp	200bp	197bp	Continued ECB easing and SNB pause	Negative SNB policy rate
	6m5y 1x1.5 rec	5-Feb-25	0bp	14bp	-10bp	0.7bp	Repricing of ECB terminal lower	Rally beyond downside breakeven
	Short 1y1y vs 1y10y vol	24-Nov-24	6.5bp	20bp	-10bp	16bp	Underperformance of left side on dovish ECB	Hawkish policy shift
	Long 30y Bunds vs Netherlands	24-Nov-24	14.5	25	8	12.4	Fade the cheapness of GE long-end	Change in German constitution
	Pay 1y1y Euribor-€str basis	24-Nov-24	21.5	30	17	23	Reduced liquidity, increased term funding cost	New ECB LTROs / early end to QT
	5y1y ATM-25/-100bp rec spread	8-Feb-24	25bp	60bp	0	23bp	Lower ECB terminal rate, without negative carry	Better than expected EUR data
	Rec Nov MPC-dated Sonia	13-Jun-25	3.78%	3.50%	3.95%	3.78%	Market underpricing our base case	Stickier than anticipated inflation
	1s2s RPI flattener	23-May-25	7	-30	25	1	RPI forecast, RV anomaly	Falling energy prices
	Receive fwd UKTi real rates/pay fwd TIPS real rates	14-May-25	22	-40	50	-8	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
UK	Long UKT 0 1/8% 2028 vs. UKT 4 3/8% 2028 on ASW (on z-spd)	24-Jan-25	-29	-40	-24	-27	Retail demand for low coupon Gilt	Change in the tax treatment of Gilts for retail
	UKTi 2037/39 real curve flattener	24-Oct-24	17	9	25	20	Attractive level; low coupon value	Supply related dislocation
	UKTi 2032/36/47 barbell (+43.8%/-100%/+56.2% risk)	05-Sep-24	14.8	5.0	20.0	15	Expect forward flattening	Illiquid conditions
	Short Sonia 3s5s7s (pay 5s)	05-Sep-24	-12	10	-21	-6	Mortgage paying flows	Stamp Duty tax rise at the Oct budget
	Sell UKTI 2036 v UKT 2042 on ASW	26-Jul-24	-21	-8	-28	-25.4	Historical extreme spread	Poor nominal auction demand
	Pay July BoC OIS	6-Jun-25	2.65%	2.75%	2.55%	2.67%	BoC will remain patient on rate cuts	Weak CPI or labor market reports
	Pay Dec FOMC OIS	15-May-25	3.78%	4.25%	3.5%	3.83%	Fade '25 rate cuts	Fed cuts get priced back into '25
	Short 30y swap spread	30-Apr-25	-90	-110	-75	-94	Disappointment in de-regs and deficits	WAM shortening by Treasury or Fed
	18m1y vs 6m1y rec	1-May-25	0bp	30bp	-15bp	47bp	< frontloaded cuts, > backloaded cuts	>frontloaded cuts with < medium term
	6m fwd 2s10s floor ladder	1-May-25	46bp	17bp	-10bp	38bp	Underperformance of curve vs fwds	Flattening beyond the c.20bp BE
	Long 2y3y inflation	24-Apr-25	2.24	2.50	2.05	2.29	Expect above market inflation medium term	Downturn that lowers inflation compensation
	6m10y payer spreads	7-Apr-25	8.5bp	25bp	-8.5	6bp	Fed on hold, limited scope for bearish shocks	Limited to upfront premium
	6m5y payer ladder	7-Mar-25	0bp	25bp	-10bp	3bp	Repricing of Fed policy through higher	Selloff beyond downside BE
	6m1y rec spd	21-Jan-25	11bp	25bp	-11bp	9bp	Higher slowdown likelihoods	Limited to upfront premium
US	Sell 1m10y vs 6m10y receiver	21-Jan-25	0bp	20bp	-10bp	3bp	Higher slowdown likelihoods	More significant rally near vs medium term
	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	30bp	Term premium build & reacceleration scenarios	Bear flattening on hawkish Fed
	1y10y payer spd vs 3m10y payer	24-Nov-24	0bp	30bp	-15bp	-3bp	Higher recalibration/reacceleration likelihoods	Frontloaded sell that fades medium term
	1y1y straddles vs strangles	24-Nov-24	+0.31%	20bp str /vega	-10bp str /vega	0.273%	Long vol of vol	Lower vol of vol
	Long 5y30y vol vs 2y30y vol	24-Nov-24	+5.5bp vega	15bp vega	-10bp vega	3bp	Vega supported bearish tail scenarios	Outperformance of intermediate vs long vega
	3y1y rtr spd a/-50bp	6-Nov-23	pay 23bp	50bp	-23bp	3bp	Soft landing scenario	Capped to premium
	Long 1y10y rtp spd vs 4m10y rtp	3-Jul-24	0bp	20bp	-10bp	-13bp	Bearish election risks medium-term	Frontloaded bearish risks
	US 10y invoice spreads	30-May-25	40	60	25	55	Fiscal divergence	US reg reform, AU budget update
	Pay 3y swap EFP (q/q)	28-May-25	-9.5bp	10bp	-19.5bp	-8.5bp	Bond demand underestimated, LIBOR-OIS risk underpriced	Global spread tightening
	Buy Dec '25 bill futures, sell YM	16-May-25	21bp	8bp	27bp	21bp	RBA likely to sound hawkish in May	RBA dovish (mis)communication
APAC	Buy TCV 5.5% Sep 2039 vs 10y IRS	15-May-25	133bp	100bp	148bp	140bp	Fiscal convergence between AU and Victoria	Wider spreads likely in a risk-off event
	AU 6m3y receiver 1x1.5	27-Mar-25	4bp	30bp	-15bp	6bp	Dovish repricing of RBA terminal	Hawkish RBA shift
	JP 1y2y payers spd vs 1y10y payers	24-Nov-24	0bp	40bp	-15bp	-2bp	Bear flattening of the curve	Lagging BoJ & curve bear steepening
	JP 1y5y payer ladders	24-Nov-24	0bp	28bp	-10bp	4bp	Repricing of policy trough	Underperformance vs. downside b/e
	KR 1y fwd 2s10s bull steepeners	24-Nov-24	0bp	25bp	-10bp	15bp	Dovish BoK and bull steepening	Hawkish shift for BoK
	KR 1y5y receiver spd	24-Nov-24	-16bp	34bp	-15bp	28bp	Repricing of policy trough lower	Capped to upfront premium

Exhibit 34: Global Rates Trade Book - closed trades
Closed trades

	Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
Europe	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
	Short ATM 1y2y payer vs OTM in US	03-Sep-24	0	25bp	-15bp	23-Oct-24	25bp
	Receive belly of 2s3s5s PCA fly	02-May-24	-20	-26	-16	21-Oct-24	-14.5
	Long Schatz ASW	05-Jul-24	32.4	47	24	18-Oct-24	23
	Pay 9Mx12M EUR FX-Sofr basis	22-May-24	-6.9bp	-2bp	-10.2bp	18-Oct-24	-1.6
	1y1y/2y3y EURi steepener	26-Jul-24	3	16	-5	25-Sep-24	8
	EUR 2y 3s6s widener	19-Mar-24	8.1	14	5	12-Sep-24	4.8
	Receive 2y1y €str	19-Nov-23	2.45	1.70	2.90	03-Sep-24	2.09
	Long 6m7y OTM receiver vs 6m7y OTM payer	24-Jun-24	0	800K	-400K	07-Aug-24	800K
	Sep24 FRA-OIS widener	02-Feb-24	11.3	15	5	05-Aug-24	12.5
	1y fwd 2s10s EURi steepener	19-Jan-24	13	30	4	26-Jul-24	17
	5s10s EURi steepener	19-Nov-23	8	25	-5	26-Jul-24	12
	6m fwd 2s5s bull flattener	20-May-24	0	300K	-150K	25-Jul-24	-150K
	10s30s flattener in EUR vs US	04-Oct-23	0	40	-20	24-Jun-24	7
	Long OAT Apr29 vs BGB Jun29	25-Apr-24	8	2	11	10-Jun-24	5.9
	OATei 2029s/2053s real curve flattener	16-Apr-24	37	10	50	04-Jun-24	19
	OATei 2027s/2029s real curve steepener	9-Feb-24	7.4	18.0	2.0	04-Jun-24	-2
	Long 10y Bund vs UST	13-Feb-24	182	225	155	09-May-24	200
	Sell EUR 6m5y OTM payer to buy OTM payer in US	19-Nov-23	0	600K	-400K	18-Apr-24	110K
	Receive 2y3y €str vs SOFR	04-Oct-23	104	180	60	04-Apr-24	155
	BTP ASW 5s10s steepener	19-Nov-23	50	75	35	04-Apr-24	55
	Long DBRi 2026/short OATei 2026 on z-spread	22-Mar-24	10	-10	20	04-Apr-24	14
	3m1y ATM+25/+50 payer spd	06-Dec-23	5	15	0	23-Feb-24	15.5
	Pay Apr ECB date, receive Mar	02-Feb-24	-18	0	-28	19-Feb-24	-11
UK	Receive 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
	Sell SFIM9 vs. SFIM6 futures	14-Jun-24	-19.5	10	-35	09-Sep-24	5
	UKTi 2032-36-42 barbell (+35%/-100%/+65%)	26-Apr-24	13.6	5	18	05-Sep-24	11.8
	UKTi '36/47 vs '34/46 fwd yield sprd	2-Feb-24	24	8	32	05-Sep-24	16
	UKTi 2036/47 real curve flattener	26-Sep-23	55	30	70	05-Sep-24	51
	Sell UKT4e27 v UKT1e28 on ASW	10-Nov-22	1.8	-25	12	05-Aug-24	-25
	Aug-Dec MPC-dated Sonia steepener	19-Jul-24	-38.0	-20.0	-48.0	2-Aug-24	-40

Exhibit 34: Global Rates Trade Book - closed trades
Closed trades

	Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
	UKTi 2029s real yield short	10-May-24	21	70	-10	12-Jul-24	30
	Real yield switch - UKTi 2033 into OATei 2034	18-Oct-23	26	-25	50	14-Jun-24	53
	Long SFIZ4 vs. short SFIM4	03-May-24	33.5	50	20	09-May-24	44.5
	Pay Jun'24 BoE-Sonia vs Jun'24 ECB-Estr	22-Mar-24	132	153	122	11-Apr-24	139.5
	Sell Dec'24 BoE MPC-onia vs. BoC CORRA OIS	06-Feb-24	14	75	-25	11-Mar-24	33
	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
US	M5/Z6 flatteners	4-Feb-25	-18	-50	10	3-Mar-25	-48.5
	6m1y rtp ladders	9-Aug-24	0	25	-20	9-Feb-25	16
	Short 30y spreads (May '54)	20-Jun-24	-80	-105	-65	06-Feb-25	-80
	Receive TII 1/26 to TII 1/30 fwd real yield	12-Dec-24	1.77	1.4	1.98	19-Dec-24	2.05
	Mar/Sep SOFR/FF '25 curve flattener	13-Sep-24	0 bps	-3.5bp	+2bp	17-Dec-24	-3
	1y2y risk reversal	24-Nov-24	0	30	-15	9-Nov-24	15
	5s10s TII steepener	19-Nov-23	-6	50	-40	14-Nov-24	15
	Long 5y30y vol vs 2y30y vol	20-Nov-22	+14bp vega	15bp vega	-10bp vega	24-Nov-24	21bp
	1y fwd 2s10s cap spd a/+50bp	6-Nov-23	20bp	30bp	-20	6-Nov-24	18bp
	Short 1y1y vs 1y10y vol	6-Nov-23	Rec 26bp	30bp	-20	14-Nov-24	27bp
	Buy Dec TY basis	22-Oct-24	0 ticks	2 ticks	-0.75 ticks	06-Nov-24	1.5 ticks
	SOFR M5-Z7 steepener	20-Sep-24	0	50	-30	4-Oct-24	-30
	Long Mar SOFR/FF	8-May-24	-1.5bp	2bp	-3.5bp	15-Jul-24	-3.5
	2-10 CAD steepener vs 2-10 US flattener	4-Jun-24	-17.2	15	-40	13-Jun-24	-10
	Short 1y1y inflation swap	13-Jun-24	2.39	1.9	2.7	26-Aug-24	2.28
	6m10y rtp ladders	26-Mar-24	0bp	28bp	-20bp	26-Sep-24	0bp
	Long 30y BE	26-Mar-24	2.28	2.75	2.05	5-Aug-24	2.05
	Oct / Nov SOFR/FF curve steepener	9-Nov-23	-0.5bp	+2.5bp	-2bp	8-May-24	-0,5bp
	2y fwd 2s10s cap	8-Jul-22	45	150	-50	8-Jul-24	-15bp
	SOFR/FF widener in 1y1y vs 2y1y	9-Nov-23	-0.75bp	-2.5bp	+2bp	8-May-24	-1.05bp
	Long 5Y nominal	18-Apr-24	4.62%	4%	-18bp	9-May-24	4.46%
	M5-M7 SOFR Steepener	13-Dec-23	-3bp	75bp	-40bp	6-Mar-24	-41bp
	Long 2y inflation swap	22-Jan 24	2.20	2.60	1.90	21-Mar-24	2.55
	6m2y rtp spd vs 6m2y otm rtr	19-Nov-23	0bp	55bp	-25bp	2 May 24	41bp
	6m10 rtp ladders a/+32bp/+64bp	19-Nov-23	0bp	32bp	-20bp	21-March-24	15bp
	Long 2y CA vs short 2y US	19-Nov-23	-39bp	-70bp	-15	14-Mar-24	-47
	1y10y receiver spreads	9-Mar-23	-18bp	32bp	-18bp	9-Mar-24	-18bp
	5s30s JGB curve steepener	15-May-25	198	215	189.5	21-May-25	215
	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
	Buy au 3y (YM) , pay Aug RBA	04-Mar-25	-8bp	-50bp	10bp	11-Apr-25	-16bp
	2yr fwd 2s10s OIS flatteners	19-Feb-25	40	25	47.5	4-Apr-25	39
	AU 1y1y risk reversal	24-Nov-24	0bp	40bp	-20bp	27-Mar-25	23bp

Exhibit 34: Global Rates Trade Book - closed trades
Closed trades

Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
AU Long 1y2y AU vs US receivers	24-Nov-24	0bp	40bp	-20bp	27-Mar-25	15.5bp
Mar/Sep '25 BOB steepener	3-Oct-24	2bp	6bp	0bp	18-Mar-25	4bp
Short 5yr JGB ASW	24-Jan-25	0	8	-5	06-Mar-25	8
Receive Feb '25/ Pay Apr '25 RBA s	29-Jan-25	-11bps	0bp	-17bp	21-Feb-25	-4bp
AU pay 5y5y 6s3s	19-Nov-23	4.4bps	9bp	2bp	05-Feb-25	8.45bp
5yr20yr JGB curve flatteners	9-Jan-25	114	104	119	17-Jan-25	104
Long 20yr JGB asset swap	24-Nov-24	27	20	31	16-Jan-25	31
Receive AU 5y5y IRS vs US	11-Nov-24	107	75	123	20-Dec-24	74
Long 5yr ACGBs vs 5yr JGBs	24-Nov-24	305	280	320	13-Dec-24	320
AU Pay Feb '25 RBA, buy Sep futures	24-Nov-24	-23bp	-45bp	-12bp	10-Dec-24	-48bp
AU/JP: buy 5y ACGBs, sell 5y JGBs	24-Nov-24	352bp	305bp	375bp	10-Dec-24	305bp
KRW 1y5y receiver spd	5-Jun-24	15bp	25bp	-15bp	19-Nov-24	13bp
JPY 6m5y payer ladders	10-Jul-24	0bp	30bp	-15bp	19-Nov-24	6bp
JPY 6m7y payer ladders	23-Sep-24	0bp	13bp	-10bp	19-Nov-24	2bp
AUD 1y fwd 2s10s bull steepener	19-Nov-23	0bp	30bp	-25bp	19-Nov-24	-4bp
AUD 1y5y rtr spd a/-40bp	19-Nov-23	17.5bp	22.5bp	-18bp	19-Nov-24	12bp
AUD 1y5y rtr spd vs 3m5y rtr a-12bp	19-Nov-23	0bp	40bp	-25bp	19-Nov-24	-1bp
JPY 1y fwd 5s30s bear flattener	19-Nov-23	0bp	25bp	-20bp	19-Nov-24	-12bp
2s10s 6s3s steepener	12-Aug-24	-6bp	0bp	-9bp	19-Jun-24	-9bp
Pay Dec '24 RBA	20-Aug-24	4.125%p	4.34%	4.01%	17-Oct-24	4.27%
Sell Mar '25 futures, buy Dec '24 & Sep '25 futures	12-Aug-24	4bp	14bp	-1bp	20-Aug-24	0bp
1y1y/3y2y flattener	26-Jul-24	18bp	3bp	25.5bp	26-Jul-24	6.5bp
Jun24/Dec24 bills-OIS flattener	19-Jun-23	7.5bp	1.5bp	10.5bp	13-Jun-24	5bp
Receive 10y swap spreads	17-May-23	51	20	65	3-Apr-24	20
Buy ACGB 3.5% 2034 vs. UKT 0.625% 2035	13-Nov-23	18.5	-40	45	22-Feb-24	-5.1
JPY 6m10y rtp spd vs 6m2y rtp	19-Feb-24	0bp	40bp	-20bp	19-Aug-24	0bp
Swap EFP (3y/10y) box flattener	19-Nov-23	10b[s	0bps	15bps	22-Mar-24	-1
receive AU 5y5y IRS, pay US 5y5y IRS	19-Nov-23	109	0	148	21-Feb-24	99
2yr10yr TONA swap steepener	1-Feb-24	68.5	80	62.7	22-Feb-24	62.7
Feb/Mar 2024 OIS steepener	19-Nov-23	0	15	-7.5	12-Jan-24	-7.5
Pay June 2024 3m bills vs OIS	7-Nov-23	15	30	8	12-Jan-24	8
10yr/30yr TONA swap flatteners	19-Nov-23	59	49	64	19-Jan-24	64
10yr/30yr TONA swap flatteners	19-Nov-23	59	49	64	19-Jan-24	64

Source: BofA Global Research

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Global rates forecasts

Exhibit 35: Latest levels and rate forecasts
Forecasts by quarter up to Q2 ‘26 plus YE 2026

		Latest	Q2 25	Q3 25	YE 25	Q1 26	Q2 26	YE 26
USA	O/N SOFR	4.28	4.29	4.31	4.32	4.33	4.34	3.35
	2y T-Note	3.91	3.90	3.80	3.75	3.75	3.75	3.85
	5y T-Note	3.97	4.00	4.05	4.10	4.15	4.20	4.25
	10y T-Note	**4.36**	**4.35**	**4.40**	**4.50**	**4.55**	**4.60**	**4.75**
	30y T-Bond	4.84	4.75	4.80	4.90	4.95	5.00	5.10
	2y Swap	3.74	3.74	3.62	3.55	3.55	3.55	3.65
	5y Swap	3.68	3.70	3.73	3.76	3.81	3.86	3.91
	10y Swap	**3.92**	**3.90**	**3.93**	**4.01**	**4.04**	**4.07**	**4.22**
	30y Swap	4.07	3.95	3.93	4.04	4.04	4.07	4.22
Germany	3m Euribor	1.98	1.95	1.80	1.60	1.65	1.70	2.00
	2y BKO	1.82	1.80	1.75	1.80	1.95	2.00	2.15
	5y OBL	2.08	2.10	2.05	2.10	2.25	2.30	2.40
	10y DBR	**2.48**	**2.50**	**2.45**	**2.50**	**2.60**	**2.70**	**2.75**
	30y DBR	2.93	2.95	2.90	2.95	3.00	3.10	3.15
	2y Euribor Swap	1.97	1.95	1.90	1.90	2.00	2.05	2.20
	5y Euribor Swap	2.20	2.20	2.15	2.20	2.30	2.35	2.45
	10y Euribor Swap	**2.51**	**2.50**	**2.45**	**2.45**	**2.50**	**2.60**	**2.65**
	30y Euribor Swap	2.61	2.55	2.50	2.60	2.70	2.80	2.90
Japan	TONA	0.48	0.48	0.48	0.48	0.48	0.73	0.98
	2y JGB	0.76	0.60	0.63	0.65	0.70	1.05	1.30
	5y JGB	1.01	0.85	0.88	0.90	0.95	1.30	1.60
	10y JGB	**1.45**	**1.35**	**1.43**	**1.50**	**1.53**	**1.60**	**1.75**
	30y JGB	2.92	2.70	2.78	2.85	2.85	2.85	2.95
	2y Swap	0.71	0.58	0.60	0.60	0.65	1.00	1.25
	5y Swap	0.90	0.75	0.78	0.78	0.80	1.15	1.45
	10y Swap	**1.23**	**1.10**	**1.13**	**1.20**	**1.23**	**1.30**	**1.45**
U.K.	3m Sonia	4.14	4.00	3.60	3.50	3.50	3.50	3.50
	2y UKT	3.87	3.70	3.60	3.60	3.60	3.60	3.65
	5y UKT	3.99	3.90	3.90	3.90	3.90	3.95	4.00
	10y UKT	**4.48**	**4.45**	**4.45**	**4.45**	**4.45**	**4.50**	**4.55**
	30y UKT	5.19	5.05	5.00	4.95	4.90	4.90	4.90
	2y Sonia Swap	3.69	3.60	3.50	3.50	3.50	3.50	3.50
	5y Sonia Swap	3.70	3.70	3.70	3.70	3.70	3.75	3.80
	10y Sonia Swap	**3.99**	**4.00**	**4.05**	**4.10**	**4.10**	**4.15**	**4.20**
Australia	3m BBSW	3.73	3.85	3.85	3.60	3.60	3.60	3.60
	2y ACGB	3.31	3.50	3.25	3.00	3.05	3.10	3.50
	5y ACGB	3.55	3.60	3.40	3.20	3.25	3.30	3.40
	10y ACGB	**4.24**	**4.05**	**3.90**	**3.75**	**3.80**	**3.85**	**4.00**
	3y Swap	3.25	3.50	3.25	3.00	3.05	3.10	3.50
	10y Swap	**4.09**	**4.05**	**3.90**	**3.75**	**3.80**	**3.85**	**4.00**
Canada	2y Govt	2.69	2.50	2.50	2.50	2.50	2.50	2.50
	5y Govt	2.93	2.65	2.70	2.75	2.80	2.85	2.95
	10y Govt	**3.33**	**3.00**	**3.05**	**3.10**	**3.15**	**3.20**	**3.30**
	2y Swap	2.56	2.37	2.37	2.37	2.37	2.37	2.37
	5y Swap	2.71	2.43	2.48	2.53	2.58	2.63	2.73
	10y Swap	**3.06**	**2.74**	**2.79**	**2.84**	**2.89**	**2.94**	**3.04**

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

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Appendix: Common acronyms

Exhibit 36: 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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Research Analysts

Europe

Ralf Preusser, CFA
Rates Strategist
MLI (UK)
ralf.preusser@bofa.com

Mark Capleton
Rates Strategist
MLI (UK)
mark.capleton@bofa.com

Sphia Salim
Rates Strategist
MLI (UK)
sphia.salim@bofa.com

Ronald Man
Rates Strategist
MLI (UK)
ronald.man@bofa.com

Erjon Satko
Rates Strategist
BofASE (France)
erjon.satko@bofa.com

Agne Stengeryte, CFA
Rates Strategist
MLI (UK)
agne.stengeryte@bofa.com

Edvard Davidsson
Rates Strategist
MLI (UK)
edvard.davidsson@bofa.com

US

Ralph Axel
Rates Strategist
BofAS
ralph.axel@bofa.com

Bruno Braizinha, CFA
Rates Strategist
BofAS
bruno.braizinha@bofa.com

Mark Cabana, CFA
Rates Strategist
BofAS
mark.cabana@bofa.com

Paul Ciana, CMT
Technical Strategist
BofAS
paul.ciana@bofa.com

Katie Craig
Rates Strategist
BofAS
katie.craig@bofa.com

Meghan Swiber, CFA
Rates Strategist
BofAS
meghan.swiber@bofa.com

Anna (Caiyi) Zhang
Rates Strategist
BofAS
caiyi.zhang@bofa.com

Pac Rim

Shusuke Yamada, CFA
FX/Rates Strategist
BofAS Japan
shusuke.yamada@bofa.com

Tomonobu Yamashita
Rates Strategist
BofAS Japan
tomonobu.yamashita@bofa.com

Oliver Levingston
FX & Rates Strategist
Merrill Lynch (Australia)
oliver.levingston@bofa.com