Global Rates Weekly

From scarcity to aBundance

20 June 2025

Rates Research
Global

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The View: Macro vs fiscal & regulation news

The macro may stand a chance to return to the driver seat as we get PMIs across regions, and several inflation prints. However, signals may be mixed globally. In Europe, news on defense spending & issuance can dominate. In US, focus on SLR development.
— S. Salim

Rates: It's getting tense

US: Pay Dec '25 FOMC OIS, long 2y3y inflation breakevens, & short 30Y spreads. SLR proposal drops on 25 June, expect only eSLR = 0.5*GSIB for now.

EU: The focus next week will be on the EU 2H25 funding plan, followed by the release of the German Q3 funding update that may reflect some of the new budget spending.

UK: Benign inflation data and MPC minutes reduce the risk that our received November MPC-dated Sonia trade will have to be tossed into Huw Pill's skip.

AU: We recommend selling Dec '25 vs 3y bond futures after a strong AU jobs report. AU duration looks attractive vs USTs given potential tailwinds from de-dollarization.

JP: BoJ reductions in JGB purchases through March 2027 in line with market consensus; unsurprising. However, another interim assessment will be conducted in June 2026, suggesting that QT may continue into FY27.

CH: As expected, the SNB cut by 25bp, taking the policy rate to 0%, where we think it will likely stay in 2H25/2026. EUR vs CHF remains attractive.

— M. Cabana, M. Swiber, B. Braizinha, R. Axel, S. Salim, R. Segura-Cayuela, A. Stengeryte, M. Capleton, O. Levingston, T. Yamashita, K. Craig, E. Davidsson, C. Angeloni, E. Satko

Front end: MMF portfolio update: less T-bills, more repo

US: MMF data shows funds avoiding T-bills that mature in August, likely due to debt limit concerns, and have shifted more cash into repo. *— K. Craig, M. Cabana*

Spreads: BTP-OAT tightener

EU: The economic paths of France and Italy display a mixed picture. We look into a 2y BTP-OAT tightener. *— E. Satko*

Special Topic: Models Update

10y nominals & RYs trade cheap vs FV. Tariffs pullback & fading negative bias in data drive some of the cheapness, but a less virtuous dynamic driven by higher oil prices and geopolitical risks has also contributed. *— B. Braizinha*

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Timestamp: 20 June 2025 06:00AM EDT

Our medium-term views

Exhibit 1: Our medium-term views
Global views

Rationale	
Duration	• US: paid US front end & slightly underweight 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 Dec '25 FOMC OIS, tactically long front end spreads until closer to DL resolution • 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 slightly flatter 5s30s curve & steeper 10s30s 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 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: 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 2033s and '39s. We also recommend OATei 2038s/53s real flatteners (convexity value oversold) • UK: We would receive the forward real yield between UKTi 2035 and UKTi 2049, against paying the equivalent forward in TIPS. We favor RPI 1s2s flatteners • 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", tactically short EU 5y vs NL, 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

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The week that will be

The macro stands a chance to return to the driver seat of global rates markets next week, as we get PMI releases across regions on Monday, and a string of inflation prints.

- Despite their poor information ratio since Covid, PMI surprises tend to still have an impact on rates, esp in EUR. Seasonality patterns noted by our economists suggest downside risks, supporting lower rates. We remain received 5y5y EUR real rates.
- On inflation, the most important release will be US core PCE (Fri). Our economists note that we are tracking a soft 0.2% mom print. Still, they expect inflation to move higher in 2H as tariffs work through the economy. We stay long 2y3y US inflation. Other releases include Canada May CPI (Tue), Australian May CPI (Wed) and Tokyo Jun core CPI (Fri). The latter should be interesting as a third consecutive rise in the YoY rate could challenge the very limited rate hike pricing in the JP front-end.
- Other data include US consumer confidence (Tue), 3rd reading of 1Q US GDP, US Durable goods orders & inventories for May (all on Thu), German IFO (Tue) & German consumer confidence (Thu).

Fiscal matters will also be front and center in Europe. The German govt will present its new 2025 budget, the NATO summit will provide guidance on Defence spending targets, and the EU council will discuss how to fund defence and try to make progress on the next new EU multiannual financial framework (more details in Europe Economic Weekly).

More concretely for bond markets, we will get the German Finanzagentur's Q3 funding update - in which we expect a mild increase in issuance, and the 2H25 EU funding plan – for which we are out of consensus in expecting €70bn of bond supply (Rates – EU).

Regulations should also be in focus in the US as Fed's Bowman speaks on Monday and an open meeting is conducted on Wednesday to discuss the SLR proposal (with a written proposal likely to be released shortly before). We continue to think that changes (maybe only an eSLR reduction at this time) will not be enough to create meaningful additional demand for long-dated USTs and stay short 30y spreads for very near term (Rates – US).

The week that was

Geopolitical tensions intensified, with question marks around a potential future US involvement in the Israel-Iran war. Rates markets have not reacted completely as expected. The 14% rise in oil prices since Jun 12th has certainly supported short dated breakevens, Periphery and EGB spreads in general started to widen yesterday as the EUR equity sell-off extended. However, EUR swap spreads, which tended to widen in risk-off episodes, are unchanged, and same goes for UST yields. We explain the latter by the greater directionality of UST yields to oil prices in geopolitical events (Rates - US).

CB meetings: the Fed was on hold and Powel pushed back against immediate cuts, focusing on the strength of the US economy, reduced macro uncertainty & expected upside pressure on inflation due to tariffs. We stay paid the US front-end. The BoJ was on hold, sounded cautious and updated its QT plans. The BoE was on hold but with 3 members voting for a cut and greater conviction on a loosening in the labour market. We stay received Nov MPC, expecting cuts in Aug, Sep & Nov (Rates – UK). The SNB cut by 25bp but signaled greater resistance to negative rates, leading to a sell-off (Rates – CH).

It was Japan's turn to deliver a change in the long end net issuance backdrop, with the BoJ announcing a slowdown of QT from Apr-26 (Rates - Japan), and the MoF publishing a plan to reduce (ultra) long-end supply ahead of its meeting with dealers today.

Rates – US

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- Pay Dec '25 FOMC OIS, long 2y3y inflation breakevens, & short 30y spreads
- SLR proposal drops on 25 June, expect only eSLR = 0.5*GSIB for now

US rates rose & the 5s30s curve modestly bear steepened in a holiday shortened US trading week. Wider inflation breakevens drove the US rate rise following the 10% increase in oil after Israel-Iran hostilities. We recap the June FOMC, UST 'safe-haven' dynamics, & SLR moves. We like: pay Dec '25, own 2y3y inflation, short 30y spreads.

June FOMC: no change in core rate views

June FOMC focus: (1) dot plot that implied a higher average dot in '25 (+5bps) & higher cutting trough via '26 & '27 median dots (2) slightly hawkish Powell comments that tariff pressures are likely in the inflation pipeline, labor market is not "crying out" for a rate cut, & the overall stance of monetary policy is only modestly restrictive. The Fed dot plot was also slightly hawkish via average & '26 / '27 median (Exhibit 4).

Fed communications do not materially impact our core rate views. We continue to like being: (1) paid at the front end & fading the extent of near-term Fed rate cuts; we like being paid Dec '25 FOMC OIS & see logic of being paid Sept '25 FOMC OIS (2) long 2y3y inflation swaps given the rapid drop in inflation pricing after 1y & limited pricing of persistently elevated inflation (3) short 30y asset swap spreads due to long end supply / demand issues & disappointment around near-term financial de-regulation, including initial indications of underwhelming tweaks to the supplemental leverage ratio.

We remain comfortable with our long end UST rate forecasts that expected 10y at end 2Q25 of 4.35% (near market) & end '25 of 4.5% (slightly above forwards at 4.45%).

Exhibit 4: Fed dot plot median & average levels
Median & average dots shifted higher at the June meeting

	'25	'26	'27	LR
June Median (%)	3.88	3.63	3.38	3.00
June Average (%)	4.06	3.51	3.27	3.11
March Median (%)	3.88	3.38	3.13	3.00
March Average (%)	4.01	3.45	3.24	3.11
Median Change (bps)	0	25	25	0
Average Change (bps)	5	5	3	0

Source: Federal Reserve, BofA Global Research

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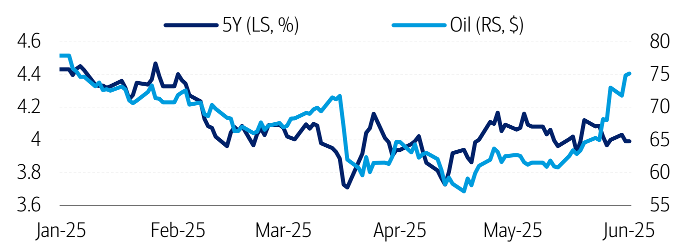
Exhibit 5: YTD US nominal 5Y & oil
YTD US nominal 5Y & oil correlation recently broken down



Source: Bloomberg

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Geopolitics & rates: inconsistent response, oil matters

Geopolitical tensions around Israel & Iran have re-focused attention on the performance of USD assets, especially USTs. Our historic analysis of prior geopolitical events suggests an inconsistent response of USTs; we conclude that USTs often do not rally amidst geopolitical tensions and the directional move correlates with oil prices. Buyers shouldn't think of higher geopolitical tensions as a trigger for lower UST yields.

Looking back at a series of key geopolitical events since the '90 Iraqi invasion of Kuwait, our study of price moves 1m after the event suggests that the dollar appreciates and rates selloff roughly half the time. Directionality and extent of price action is tied closely to the perceived scale of economic consequences for the US economy.

We find that rates moves correspond well with direction of oil (Exhibit 6). Across events, rates have sold off only in instances when oil is higher. Equities tend to be a less consistent signal with directionality of rates. Bottom line: US rates shouldn't be expected to decline with global tensions, esp. if oil is rising (for context, our 10y BE framework suggests 5bp widening pressure for +$10 WTI move – see Special Topic).

Exhibit 6: Directionality of 10y rate to change in equities vs oil for geopolitical event studies (1m window after event)

Rate directionality corresponds more to directionality of oil move vs equity move

		Rates		
		Up	Down	Directional consistence hit ratio
	Up	40%	40%	
Equities	Down	15%	5%	45%
	Up	55%	15%	
Oil	Down	0%	30%	85%

Source: BofA Global Research, Bloomberg

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Regs & spreads: SLR changes may disappoint

The other key event this week was regulations. The Fed advanced the SLR discussion by setting the date for an open meeting to discuss the coming SLR proposal on 25 June. We expect the written proposal in full shortly before the meeting time of 2pm EST. It seems likely to be a joint proposal from the Fed, FDIC, and Treasury/OCC. This would be a sign of a unified approach making it more likely to become quickly enacted. Regs easing can generally be done faster than regs tightening, but we expect to see 1 to 3 months of an open comment period before the respective agencies vote to enact the regs.

Our expectation remains that the Fed will only reduce eSLR at this time - with no carve outs of reserves or Treasuries or any other changes to SLR or the GSIB surcharge (i.e., no Method 1 adoption). This may come as a disappointment to spread longs looking for a material capital change that increases bank or dealer demand.

We do not expect dealers to be immediately impacted by a lower eSLR as the dealer bottleneck is mainly repo's consumption of risk-weighted capital via counterparty risk. Spreads tightened about 1bp on the Fed release as markets prepped for a more light-handed approach from the Fed on capital regs, with possibly no carve outs for SLR. We think disappointment may continue as regulators squarely focus on the surgical change to eSLR (from 3% down to 0.5 * GSIB surcharge) and leave the rest of the capital discussion to the July conference, which has no firm date yet. We do not expect a lower eSLR to impact GSIB demand for USTs since banks do not consume SLR capital when selling reserves to buy Treasuries (see SLR & USTs: it won't matter much).

The July capital conference will likely reveal the Fed's near-term priorities for bank capital tweaks. In our view more capital regs changes this year are less likely, but a modified GSIB calculation could be announced next year possibly with specific steps to reduce risk-weighted capital requirements for Treasury dealers. For now, we expect just the eSLR change and open discussion at the July conference of next steps.

We remain short 30y spreads expecting more regs disappointment and potentially fiscal surprises. However, we are cognizant of potential future UST WAM shortening risks; we will be wary of holding a spread short into the 11 July Treasury dealer questionnaire that could offer hints of a willingness to shorten WAM via increased reliance on bill issuance.

Bottom line: pay Dec '25 FOMC OIS, be long 2y3y inflation breakevens, & be short 30y spreads. June FOMC dot plot was hawkish & Fed remains in no hurry to cut. Geopolitical risk increase doesn't always see rates lower, much depends on oil. SLR will likely disappoint lofty market de-regulation expectations.

Rates – EU

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MLI (UK)

Ruben Segura-Cayuela
BofA Europe (Madrid)

- Germany will release its Q3 plan at the same time as the budget is announced.
- We expect the EU to stick to €70bn supply for 2H25 & go short 5y vs NL.

German Q3 funding plan: large uncertainty

The German government will present the new 2025 budget next week, and the Finanzagentur will publish its Q3 funding update on Tuesday. The budget details will matter to understand if our assumption of a backloaded impact on growth is still valid. We work on the assumption of a small uptick in defence spending relative to 2024. On infrastructure, recent news reports suggest the government could use up to €25bn of the infrastructure fund already in 2H25. It remains to be seen if this can be deployed quickly, but it would add some upside risks to our 2025 German growth forecast.

We estimated that the additional net borrowing compared to what was implied from the initial draft budget could increase by €40bn (we previously flagged a €25-60bn range). Part of this could be funded by cash buffers that the Finanzagentur still holds.

Our baseline is still that bond and bill issuance are increased by a combined €25bn: around €18bn in bonds via the re-introduction of 7y auctions from 3Q25, and €9bn of extra bill supply to keep the gross bond/bill issuance ratio at 2:1 (Exhibit 7, Exhibit 8).

Exhibit 7: Scenarios for 7y auctions in 2H25, based on historical patterns, combined with bill issuance based on 1:2 ratio for extra bills vs bond gross supply.
We estimate that the combination of 7y auctions and more bill supply can help cover 18-36bn of needs (with most likely scenario being c.25bn)

	low	likely	high
Number of new 7y auctions per quarter	2	2.5	3
Size of each 7y auction (bn)	3	3.5	4
Resulting 7y issuance potential over 2H25	12	18	24
Extra bill supply to keep bills = 1/3 of total gross issuance	6	9	12
Total potential extra issuance (7y+bills)	**18**	**26**	**36**

Source: BofA Global Research

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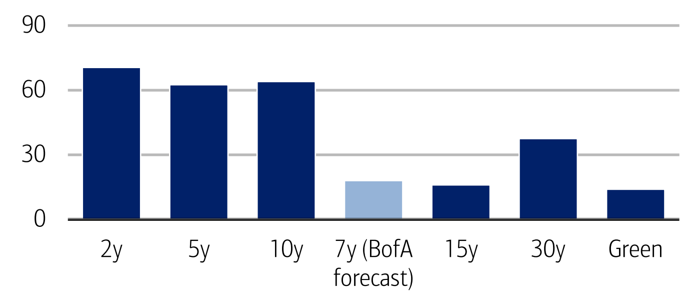
Exhibit 8: BofA baseline for breakdown of 2025 German bond supply
We assume gross bond supply rises from 265bn to 283bn via addition of 7y



Source: Finanzagentur, BofA Global Research.

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We expect the EU to stick to €70bn plan for 2H25

This is a shortened version of [European Rates Watch, 19-Jun]

The European Commission will release its 2H25 EU funding plan next week. For 1H25, it targeted €90bn of gross EU bond supply, with a guidance of €160bn for the year, implying €70bn for 2H25. We believe the European Commission will stick to this €70bn figure, favouring predictability and the smoothing of its bond issuance plan given the still elevated NGEU funding needs by YE26. This does not appear to be consensus.

NGEU Disbursements have been very low in 1H25…

While EU net bond issuance in 1H25 is set to be close to the €90bn target (likely €86bn), we estimate that only €23.4bn of that was needed for different disbursements made under the NGEU programme and the Ukraine support programmes (Exhibit 9). This means that the EU's cash holdings, reported at €33.8bn for the start of the year, may grow to above c.€95bn by end of June (esp if we account for the €7bn net increase in the stock of issued EU bills). Running such large liquidity is now creating additional costs.

… But EU likely to work on the assumption of full usage

However, we expect that this large cash balance will not prevent the EU from sticking to the €70bn guidance for 2H25. There are still €334bn due to be paid under the RRF by YE 2026 (Exhibit 10). The EC recently suggested modifications to accelerate implementation & disbursements. Crucially, it said: "Given the concentration of expected disbursements in the final phase of the RRF, the Commission will continue to use all funding opportunities to ensure that it can continue to make payments as required."

Exhibit 9: Disbursements made by the EU under NGEU and Ukraine support programmes in 1H25

We estimate that only €23bn of disbursements were made using money raised by the EU in funding markets

	YTD 2025
NGEU - RRF loans & grants	10.8
NGEU - Other programmes	4.7
Ukraine - 50bn facility	3.5
Ukraine - exceptional 18bn MFA (part of ERA)	7
Total disbursements made by the EU	26
Est. amount covered by other funding sources *	2.6
Reminder covered by EU debt issuance	**23.4**

Source: European Commission, BofA Global Research. Estimates as of 18-Jun-25 (*) we believe this is related to funds from trade emission system, and/or Brexit Adjustment Reserve.

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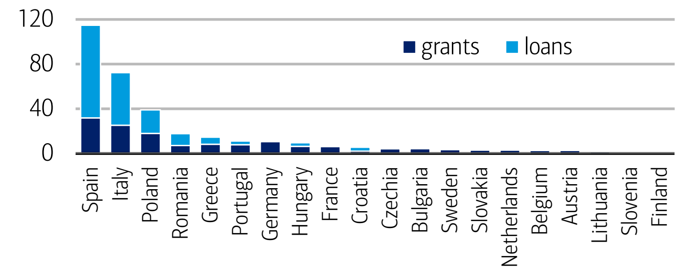
Exhibit 10: RRF grant and loans yet to be disbursed, top 20 recipients

Based on the RRF plans that were approved, there are still €334bn to be disbursed (€154bn in grants and €180bn in loans)



Source: European Commission

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And smooth the bond issuance path as much as possible

Even if the EC were to believe disbursements in 2H25 will stay low, and concentrate in 2026, a reduction in issuance plan in 2H25 would create additional pressures for 2026, with funding for Ukraine, and the new SAFE programme adding to the needs, at a time when redemptions will also pick-up and translate into significant gross issuance needs. More bills & borrowing in repo could help smooth the process, but our assumption has been that those will be prioritised for SAFE. Exhibit 11 shows scenarios for 2026 supply.

Exhibit 11: BofA scenarios for 2026 gross EU bond issuance needs, depending on how much of the remaining RRF disbursements are ultimately made, and depending on 2H25 bond issuance

to accommodate full RRF disbursements, EC would be looking at a significant pick-up of bond issuance in 2026

	agreed plans	minus SP loans	minus SP loans & 50% of loans not yet disbursed
RRF disbursements in 2H25-26	334	251	203
Remaining support for Ukraine (MFA & Facility)		25	
Remaining additional programmes (est)		10	
2H25 redemptions, to be refinanced		26	
2026 redemptions under NGEU		35	
TOTAL needs	**430**	**251**	**203**
Current cash balance (BofA est)		100	
Resulting 2026 funding needs *assuming no additional increase in bills/repo and no funds requested under SAFE needs*			
2H25 gross bond issuance at:			
50bn	280	197	148
60bn	270	187	138
70bn	260	177	128

Source: European Commission, BofA Global Research

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Trades: go tactically short 5y EU vs NL, while still structurally long in 30y vs NL

Questions we receive suggest consensus on 2H25 supply has moved to a reduction in issuance vs the €70bn guidance. We therefore turn cautious on EU bonds very near term.

We recommend going tactically short Dec-30 EU vs Jul-30 Nether, at 21.8bp, targeting 30bp, with stop at 17bp. At the same time, we remain structurally long 30y EU vs Netherlands (2054 issues). The 30y is the part of the curve where EU bonds trade cheapest relative to other supras & govies, with a significant relative to the 10y. The main risk to the short 5y EU vs NL trade is a significant reduction in EU issuance plan for 2H25. The main risks to the 30y trade are a large increase in long-end EU supply or a risk-off shock that results in higher credit spreads in Europe (weighing more on EU.

Rates – UK

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- Benign inflation data and MPC minutes reduce the risk that our received November MPC-dated Sonia trade will have to be tossed into Huw Pill's skip.

This article references our BoE review, published on 19 June 2025.

Benign messaging sets up August for a cut

BoE hold with small dovish undertones

The BoE kept Bank Rate unchanged at 4.25%, as expected. The voting pattern of 6-3 was more dovish than expected, with Ramsden joining Dhingra and Taylor in voting for a 25bp cut. Those that voted for a cut said that evidence points to material further loosening in labour market conditions.

As expected, the BoE retained its careful, gradual and meeting-by-meeting guidance, and the need for policy to remain restrictive given uncertainty. The MPC also held onto optionality, reiterating that monetary policy was not on a pre-set path. Nevertheless, there were some small dovish undertones in the minutes:

(1) the vote was more dovish than expected;

(2) the MPC seemed more convinced that the labour market is loosening and at the margin more sensitive to growth and labour market weakness;

(3) the MPC has more confidence in significant slowing in pay growth over the rest of the year, with evidence from a more representative sample of pay settlements in April continuing to point to a 3.5-4% range; and

(4) the minutes said that inflation can fall back towards target next year.

There were some less dovish elements also, including the need to keep monitoring the impact of NICs and rising food prices on inflation expectations as well as rising energy prices due to geopolitical tensions. The members who voted for a hold noted that persistence could be generated by second round effects of higher food prices. The committee continues to see two sided risks to inflation. The members who voted for a hold said that geopolitics did not play a role in their decision.

We continue to expect the next cut in August

Overall, the message was that there has been good progress in underlying inflation, greater conviction that the labour market is loosening and higher sensitivity to growth and labour market weakness. This implies that a summer "skip" to the quarterly cutting path is less likely. We continue to expect the next cut in August.

At the same time, risks to inflation remain two sided. There isn't a strong signal yet that the MPC are ready to accelerate, but greater sensitivity to the labour market and growth as well as higher confidence in disinflation mean data can get them there.

We see scope for inflation to be lower than the BoE's estimates amid continued progress in domestic inflation/pay growth, further loosening of the labour market, weaker growth, easing inflation expectations and the potentially disinflationary impact from tariffs. We expect three 25bp cuts this year, in August, September and November, to a terminal rate of 3.5%, but acknowledge that elevated inflation, gradual guidance and rising energy/food prices put our September "off-cycle" cut at risk. But we also see the bar to cutting more slowly than quarterly is high.

Rates market not swayed much by the June MPC

A more dovish than expected June MPC did not sway the market much, with money markets adding to BoE rate-cut expectations at margin, to price in 19bp of cuts in August and 49bp by year-end at the time of writing (Exhibit 12). 10y Gilts rallied 1bp after the decision, having rallied 4bp in the morning. 1y1y Sonia is now below the post-May MPC level (Exhibit 13), with the meeting augmenting support from this week's May CPI data, which the market took to be benign.

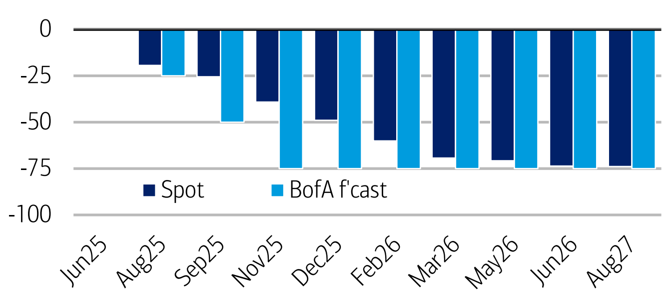
Our core rates views remain unchanged

Our confidence in an at least quarterly cutting path has firmed this week on both the inflation release on Wednesday (Inflation Review: Progress in underlying inflation continues, 18 June) and Thursday's June BoE MPC outcome. Risk-reward in receiving late 2025 MPC-dated Sonia continues to look attractive, with the market pricing only two 25bp rate cuts while our base case remains three sequential 25bp Bank Rate cuts starting in August (albeit with risks of no cut in September). Relative to our economists' global outlook, our Fed call versus market pricing stands out as the sharpest contrast to what we expect in the UK. Our US economists continue to expect no FOMC rate cuts this year (June FOMC meeting: Maximal optionality, 18 June).

Further out, our conviction remains unchanged, with us seeing Gilts as attractive, tactically, over the summer (and hopefully beyond). Next Monday's speech by the Fed's Michelle Bowman ("Assessing the effectiveness of monetary policy during and after the Covid-19 pandemic") and open hearings on the SLR adjustment proposal on Wednesday and Thursday will be in focus for any hints on US SLR developments and their potential spillover effects to the UK (see Rates – US for more).

- We continue **receiving November MPC-dated Sonia** entered at 3.78% on 13 June (current: 3.81%) targeting 3.50% with a stop of 3.95%. Risk to the trade is stickier than anticipated inflation (SLR-umber party, 13 June).
- We stay **long 30y Gilt on ASW** (using UKT 4.375% 2054) entered at 91bp on 2 May (current: 88.3bp) targeting 75bp with a stop at 100bp. Risk to the trade is re-emergence of UK fiscal worries (Deal or no ideal, 2 May).
- In inflation, we keep our **1s2s RPI flattener** entered at 7bp on 23 May (current: -17bp) targeting -30bp with a stop at 25bp. Risk to the trade is falling energy prices (The 1s2s RPI curve should be inverted, 23 May).
- We also keep **received the UK 10y10y forward real yield against paying the same in the US** entered at a pick-up of 22bp (current: -15bp) with a target of -40bp and a stop loss at 50bp. Risk to the trade is poorly digested long-dated supply in Gilts (Liquid Insight, 14 May).

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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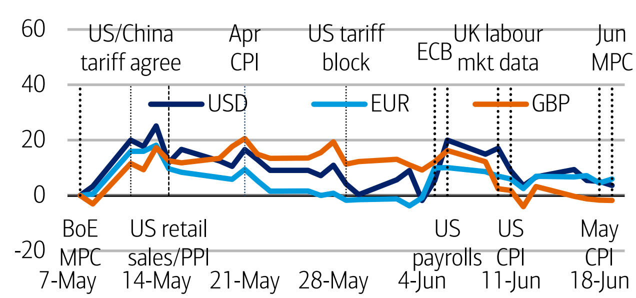
Exhibit 13: 1y1y OIS changes since May MPC, bp
1y1y Sonia now below the yield levels of the May MPC aftermath



Source: Bloomberg, BofA Global Research

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Rates – AU

Oliver Levingston
Merrill Lynch (Australia)

- We recommend selling Dec '25 futures, buying YM after a strong AU jobs print.
- A modest rotation out of USD assets could trigger large price shifts in AUD fixed-income.
- We see 10y ACGBs trading 75bps rich vs USTs by year-end '26 and like buying spreads.

Short Dec '25 futures, buy YM (3y bond futures)

The labour market showed continued resilience in May and the front end is too rich given underlying inflation continues to track above the midpoint of the RBA's target band and unemployment looks likely to print below the RBA's forecast (4.2%) this quarter. We continue to recommend selling the front-end (Dec' 25 futures) and hedging global risks by buying the belly (3y bond futures). We entered the trade at -21bps with a target of -8bps and a stop of 10bps, and the spread is currently trading at -16bps. See Rates Alpha 16 May 2025.

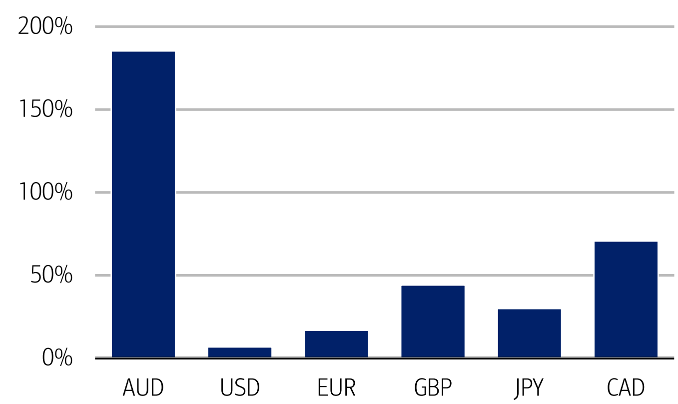
Underlying resilience in the AU labour market

For small fixed-income markets like Australia's, a modest rotation out of USD assets could have a major impact on market pricing. Dedollarization was a major theme on our trip to the United States and Canada, and we continue to highlight the significant impact small shifts in global fund managers' asset allocations could have on the demand profile for AUD fixed income.

Rising demand for peripheral dollar bloc assets

Over the past decade, the share of official reserves denominated in AUD and CAD have doubled, alongside an even steeper increase in reserves denominated in non-major currencies (Exhibit 15). The percentage of global FX reserves denominated in AUD has increased from under 1% to just over 2%. Another 1ppt shift higher in global reserve manager demand would be equivalent to 185% of net ACGB supply in 2025/26 (Exhibit 14).

Exhibit 14: +100bp shift in global reserve demand, % of net bond supply for 2025 fiscal year *
AUD sovereign bonds highly sensitive to shifts in global reserve manager demand



Source: National debt management offices, Bloomberg, IMF *AU supply for fiscal year 2025/26.
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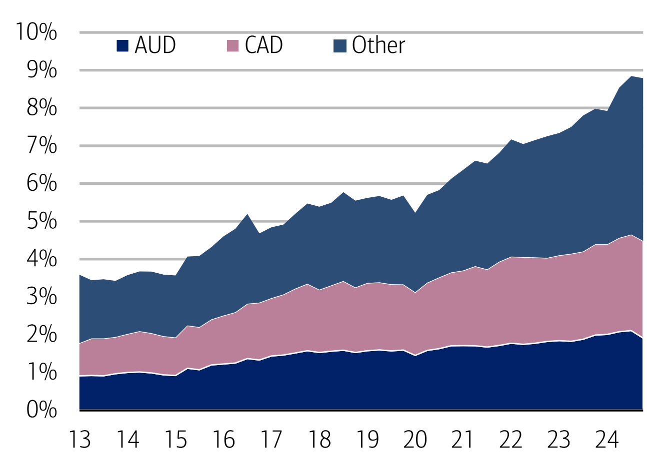
Exhibit 15: Share of global reserves by currency (%)
The share of AUD and CAD-denominated claims has doubled in a decade



Source: IMF
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Dedollarization in focus

The extent of potential asset rotation out of USD is uncertain. While our Global Fund Manager Survey and FX & Rates Sentiment Survey suggest USD shorts are popular (and crowded), slightly more investors (34%) indicated they would leave asset allocations and hedge ratios unchanged than would rotate out of US assets (29%). A further 14% would prefer to increase their hedge ratios. Yet cracks have emerged in foreign demand for USTs since April (see US Rates Watch 16 June 2025).

Rising foreign official demand for AUD bonds

Conversely, high-frequency data suggests rising demand from the official sector for AUD debt. In Australia, data on the share of purchases by investor type is usually published for syndicated issuance. The States issue bonds via syndication more frequently so this dataset is the highest-frequency indicator of investor demand. To compile this dataset, we aggregate ownership by investor type from the three largest State issuers in Australia, QTC, NSW Treasury Corporation (NSWTC) and TCV. The data suggests investor demand from the official sector has surged in 2025, close to the highest level recorded in the dataset. See Liquid Insight 18 June 2025 for details.

Market impact: AUD debt screens cheap

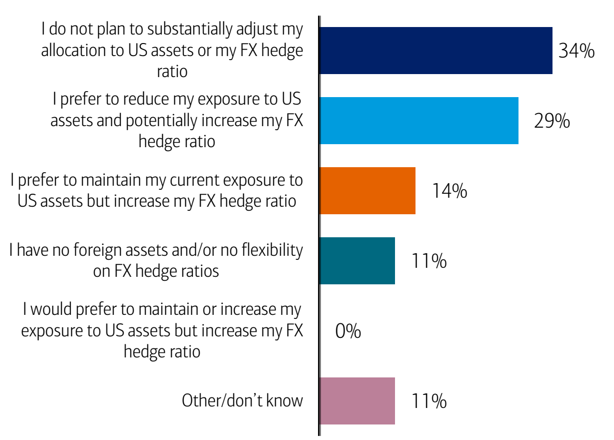
In our view, AUD bonds' high sensitivity to small shifts in global reserve demand for AUD assets has not been priced. On a comparative international basis, AUD term premium looks excessively high (see Liquid Insight 10 June 2025). Admittedly, the RBA's dovish rhetoric should keep the AU curve steeper than average over the coming months, but we see room for significant outperformance on a cross-market basis and forecast 10y ACGBs will trade 75bps rich vs USTs by year-end 2026 (Exhibit 17).

Given the multiple tailwinds for AUD duration, we are also broadly constructive on swap spreads. The spread between 3y or 10y bonds and OIS are near all-time lows. Our swap spreads framework for 10y swap spreads suggests spreads are more than 1 standard deviation too tight (i.e. bonds are too cheap) vs fair value (see Australia Rates Viewpoint 28 May 2025).

We recommend paying 3y swap EFP (entry -9.5bps, current -7bps target 10bps, stop: -19bps) and long 10y swap EFP, short US 10y invoice spread (see Global Rates Viewpoint 30 May 2025). Risk: further US deregulation and/or a sell-off in AU bonds.

Exhibit 16: Which of the following best describes your outlook for asset allocation and FX hedges:

Respondents are evenly split between those who are ready to adjust their effective hedging ratios and those who have no such plans or cannot



Source: BofA Global Research FX and Rates Sentiment Survey

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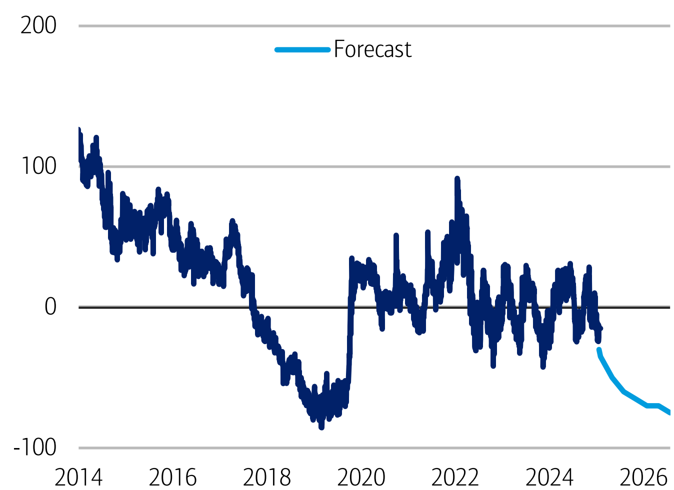
Exhibit 17: 10y ACGBs vs 10y USTs (bps)

We forecast ACGBs to trade richer vs USTs



Source: Bloomberg

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Rates – JP

Tomonobu Yamashita
BofAS Japan

- BoJ reductions in JGB purchases through March 2027 in line with market consensus; unsurprising
- However, another interim assessment will be conducted in June 2026, suggesting that QT may continue into FY27

- This is an excerpt from Japan Rates Watch, June 2026 17 June 2025

BoJ to continue QT into FY27

At its 16-17 June policy meeting, the BoJ decided to keep its policy rate at 0.5%, as widely expected, and released an interim review of JGB purchase reductions. The BoJ announced it plans to reduce JGB purchases by ¥400bn per quarter until March 2026 and then by ¥200bn per quarter starting April 2026 and extend the reductions for one year, as the Nikkei mentioned in an article on 14 June (17:00 JST).

The decision was not a surprise, given that a Bloomberg survey of 53 economists conducted 3-10 June showed 40% expected a pullback in the reduction to ¥200bn (25% expected reductions of ¥300bn and 21% expected the reductions to remain at ¥400bn).

However, the interim assessment of JGB purchase reductions was not necessarily dovish. First, Policy Board Member Tamura stated that long-term interest rates should be determined by the market and market participants, and proposed continuing quarterly reductions of ¥400bn in FY26. Second, the BoJ also announced there will be another interim assessment at the June 2026 MPM, signaling that QT is likely to continue beyond April 2027 (i.e. 100% reinvestment of redemptions is unlikely for the time being). After the BoJ released its statement, JGB futures declined and yields rose, especially in the 7-10 years.

Other decisions related to BoJ's market operations

In addition, the following changes were announced at the June MPM. (1) A reduction in the number of offers for JGBs with maturities of 10 years or less in the Quarterly schedule of Rinban operation for Jul-Sep, and (2) change in the Treatment of the Reduction in the BoJ's Repurchase Amount under the securities lending facility (SLF). We believe these changes were aimed at restoring bond market functions and made in reflection of a significant deterioration in market functioning evident in the May Bond Market Survey.

Reduction in number of offers for JGBs with maturities of 10 years or less in Rinban operations

Along with a statement, the BoJ released a quarterly schedule for JGB purchases in Jul–Sep. The amount and frequency of offers for superlong bonds is unchanged from Apr–Jun, and the BoJ did not merge the superlong category into a single "10yr+" bracket. Meanwhile, the number of monthly offers for JGBs in the 1-3, 3-5 and 5-10 year zones was reduced from four to three in Rinban operations, while the offer amount per auction was increased.

Modification of reduction measures in SLF

Along with releasing its statement, the BoJ also announced changes to reduction measures in the SLF. Specifically, (1) the scope of SLF reduction measures, previously limited to the cheapest-to-deliver (CTD) issues, will be expanded to include 10-year JGBs maturing in 2031 or later where the BoJ's holdings in the market exceed 80%, and (2) the upper limit for reduction measures "until the amount outstanding in the market recovers" will be raised from around ¥1.2tn to ¥1.5tn. We believe these changes are intended to alleviate concerns around JGB futures settlement and facilitate a recovery in bond market functions. The changes to the reduction measures will be applied to offers made on 1 July 2025, with a monthly cap of around ¥200bn, meaning the amount outstanding of CTD issues in the market will not increase soon.

Implications for rates market

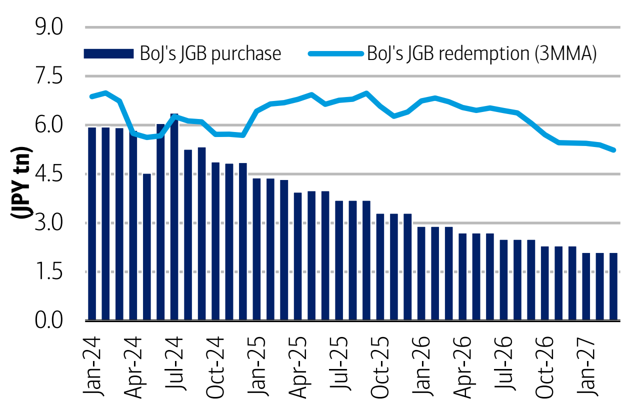
If the BoJ proceeds with the JGB purchase reductions it decided at the June MPM, its monthly JGB purchases will fall to around ¥2.9tn by March 2026 and ¥2.1tn by March 2027. Assuming JGB issuance continues at the current pace, we estimate that the BoJ's share of outstanding JGBs, now around 50.5%, will fall to 46.4% by March 2026 and 41.7% by March 2027.

If the BoJ continues reducing JGB purchases beyond April 2026, it will likely exert upward pressure on JGB yields over the long term. The BoJ currently purchases about 34% of monthly issuance, but this ratio would fall to around 24% by end-FY25 and 18% by end-FY26 if JGB issuance amounts remain constant. As we noted above, the BoJ's holdings will probably decline only gradually, but JGB yields could rise with large tails at each JGB auction.

That said, we anticipate near-term investment appeal in JGBs, especially in the medium-term zone. Bond market participants apparently believe the BoJ's next rate hike might come in October 2025 at the earliest. Governor Ueda has continued to stress the high levels of uncertainty around the Trump administration's tariff policy, and no agreement was reached at the Japan-US summit held on the 17 June (JST), but talks will continue. In other words, it may be a while before the market begins to price in the next rate hike. Moreover, carry & rolldown has been relatively attractive for JGBs with maturities around 2yrs.

Exhibit 18: BoJ's JGB purchases and JGB redemption held by BoJ

Quarterly pace of JGB purchase reductions to be ¥200bn from April 2026



Source: BofA Global Research, Bloomberg, BoJ

Note: The estimated redemption amount is the 3-month moving average

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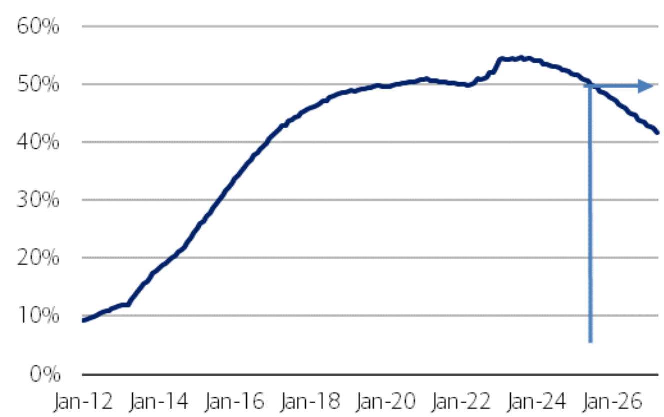
Exhibit 19: BoJ's JGB holdings vs outstanding JGBs

We expect BoJ's JGB holdings to decrease to around 41.7% in March 2027



Source: BofA Global Research, Bloomberg, BoJ, MoF

Note: It is assumed that the issuance will continue at the same level. BofA's estimates from June 2025

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Rates – CH

Edvard Davidsson
MLI (UK)

Chiara Angeloni
BofA Europe (Milan)

- As expected, the SNB cut by 25bp, taking the policy rate to 0%, where we think it will likely stay in 2H25/2026.
- Market priced in a higher trough following the 25bp cut, but EUR vs CHF front-end remains attractive

A zero interest rate policy embraced with a 25bp cut

As expected, the SNB cut by 25bp today, lowering the policy rate to 0%. Also, as anticipated, it kept unchanged the reference to its willingness to "be active in the foreign exchange market as necessary" as well as to "adjust its monetary policy if necessary to ensure inflation remains within the range consistent with price stability over the medium term". We stick to our call that a zero interest rate policy is here to stay in 2H25 and 2026. Rates in negative territory are a risk, contingent on a meaningful deterioration in the Swiss inflation outlook.

Inflation expected to reaccelerate from 2Q25

Also, as anticipated, new conditional inflation forecasts were revised down to 0.2% this year, and 0.5% for 2026 and 0.7% for 2027, compared to March's 0.4%, 0.8% and 0.8%, respectively. Importantly, the SNB emphasised that, while new conditional inflation forecasts are lower in the short term, "in the medium term, there is hardly any change from March. The forecast is within the range of price stability over the entire forecast horizon". As discussed in our SNB preview (see: Europe Economic Weekly: Two cuts and two holds), Swiss inflation within the 0-2% target band in 2025/26/27 is the main reason that a return to negative rates seems unwarranted. This view has also been cemented by the new SNB quarterly inflation profile forecasting a bottom in 2Q25 (at 0%) and a re-acceleration from 2H25 to 0.7% in 2027.

Optionality still needed given the uncertainty

The wording from the SNB, stressing the very uncertain inflation outlook and its willingness to reassess the monetary policy stance if needed, suggests the central bank is keen to preserve optionality. On the possibility of a return to negative rates, SNB President Schlegel stated again that the bank cannot exclude a return to negative policy rates but he also acknowledged that below-zero rates come with "big unwanted side effects". As such, while we do not foresee any other cut in this cycle, risks on the SNB policy rate are skewed to further easing in 2H25.

Market pricing in less cuts following SNB

Following SNB's cut and comments by Schlegel, markets priced a smaller probability of additional cuts, with December 2025 SARON pricing moving from -0.29% to -0.20%. With BofA economists estimating SNB terminal at 0%, and continued cuts by the ECB towards 1.5%, we remain in the long 6m1y EUR vs CHF we entered in March this year (current spread 1.915) with a stop loss at 200bp and profit taking at 130bp. Risks are continued FX-driven deflation in Switzerland, increased willingness by the SNB to enter negative rates territory, and ECB unwilling to cut rates further due to inflationary risks.

As the strength of the Swiss franc has driven lower price pressures, the risk of the SNB opting to do FX intervention increases. If this becomes the case, we believe this would have an upward pressure on short end rates as the need for continued cuts would be perceived to be lower. As it would create sight deposits, we assume this would be met with increased usage of liquidity-absorbing measures such as SNB bills and repos.

Front end – US

Katie Craig
BofAS

Mark Cabana, CFA
BofAS

- MMFs are avoiding T-bills that mature in August due to elevated X-date risks.
- We expect to see MMFs continue to avoid August T-bills and keep more cash parked in the ON RRP until the debt limit is resolved.

Below is an excerpt from MMFs shun debt limit exposed T-bills & invest more in repo

MMF AUM trending higher for gov't and prime retail funds

MMF AUM continues to trend higher YTD, roughly evenly split between gov't and prime MMFs, but largely into retail funds (Exhibit 20, Exhibit 21). MMFs AUM has risen 14% YoY, consistent with historical averages when 3m bill yields are 4-5% (Exhibit 22). Gov't MMFs are 20% higher YoY, but the rise can in part be attributed to prime MMF conversions last year ahead of the '24 MMF regulatory deadline. In line with that, prime fund AUM is still 8% lower YoY, largely from institutional fund outflows, closures, and conversions. We expect to see MMFs continue to see inflows, especially if Fed cuts continue to get priced out and front-end rates remain elevated (Exhibit 23).

WAM & WAL shorter as MMFs avoid debt limit bills

MMF WAMs and WALs saw a notable drop on Jun 17, according to iMoneynet data. This may be attributed to MMFs trying to avoid bills maturities in August around the expected X-date & allocating more to repo. This is consistent with recent bill auctions where Aug maturities saw notable tails, but auctions with bills maturing in Sept just after the corporate tax date are well subscribed. We are seeing a clear kink in the bill curve as MMFs avoid bills maturing within the X-date window. For more detail on the debt limit see Debt limit FAQ: spring 2025 update.

MMF yields decline YTD with Fed cut expectations

The average 7-day simple yield on MMFs has slowly moved lower YTD as market pricing for Fed cuts draws nearer. The average 7D simple yield is now 3.95% for gov't funds and 4.03% for prime, an 8bp spread. Unless Fed cuts get pushed out, we expect to see MMF yield continue to trend lower as we approach the Fed cuts the market is pricing in for later this year.

ON RRP take-up to temporarily rise due to debt limit

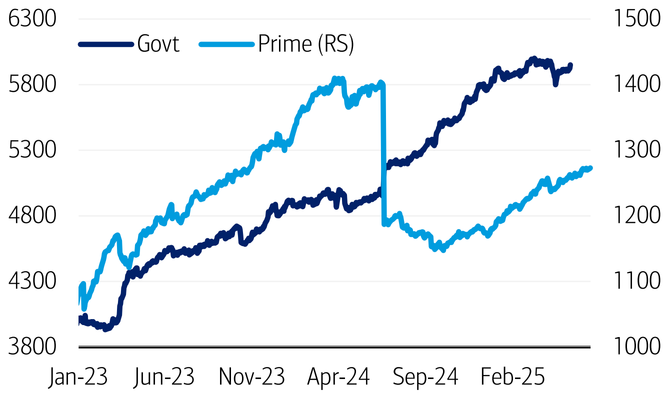
MMF ON RRP take-up was $282b on May month-end, roughly 89% of total ON RRP take-up. ON RRP take-up has been rising as debt limit dynamics drive bill supply lower and more TGA cash into the front-end. RRP take-up has since fallen notably since month-end but we expect to see take-up remain elevated as bill cuts continue leading into the debt limit resolution. One the debt limit is resolved we expect ON RRP take-up to fall towards $0 as MMF shift into the large wave of bill supply forecasted for later this year. Funding rates should also move up due to the liquidity drain from the TGA rebuild, pushing MMFs into non-Fed repo.

MMFs shift holdings out of T-bills

In May, Gov't MMF inflows lead to an increase in holdings of both UST and agency repo as well as cash. Institutional gov't funds however shifted holdings out of UST repo and into UST debt on net. Within UST debt, MMFs reduced bill holdings but increased holdings of notes and FRNs, Prime funds, which saw inflows only into retail MMFs in May, reduced holdings of UST debt and UST repo but increased agency repo, CP, CD, and TDs. The majority of prime fund inflows have been allocated to higher repo holdings (+$132b YoY), primarily UST repo, likely due to regulatory changes around prime fund daily and weekly liquid asset minimums in '24. Still, prime fund holdings of CP, across financial CP, ABCP, and non-fin CP, have risen $53b on a YoY basis. This accounts for 32% of the $170b increase in total CP outstanding we have seen over the same period. Regulatory constraints have made MMFs an increasingly smaller portion of CP investors. MMFs currently hold roughly 20% of total CP outstanding.

Bottom line: MMF AUM continues to trend higher as front-end rates remain elevated. MMFs have quickly reduced WAM recently, potentially due to concerns around the debt limit and avoiding bills that mature in August. MMF ON RRP take-up has trended higher, consistent with a reduction in bill holdings and lower repo rates. We expect to see this trend quickly reverse post debt limit resolution.

Exhibit 20: MMF AUM ($bn)
YTD, gov't fund AUM has increased 2%, prime funds have increased 8%



Source: BofA Global Research, Crane Data
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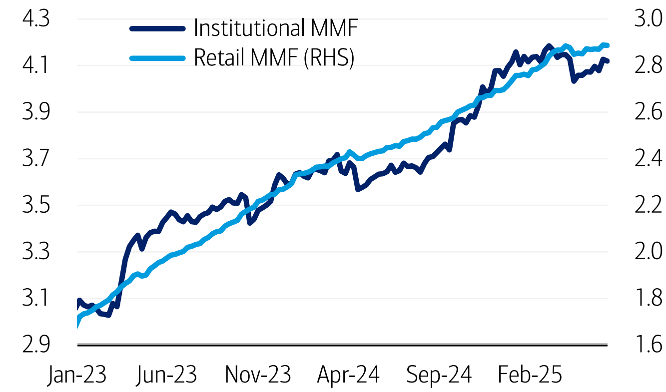
Exhibit 21: Institutional MMF AUM vs Retail MMF AUM ($tn)
Inst'l MMF AUM is flat YTD, retail MMF AUM has grown 6% YTD



Source: Bloomberg, ICI
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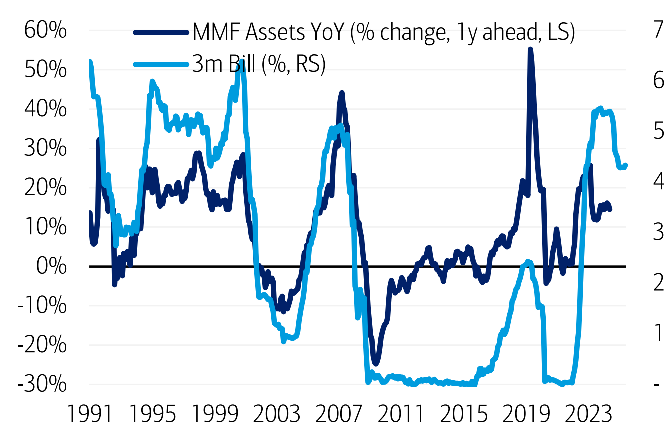
Exhibit 22: Avg change in MMF yield at 3m bill yield levels (%)
At 3.5% terminal, MMF AUM could still be growing over 10% per year

3m bill yield %	Avg MMF %change
6.00	15.70
5.00	17.48
4.00	13.78
3.50	11.67
3.00	9.77
2.00	13.66
1.00	-0.20
0.00	1.83

Source: BofA Global Research, Bloomberg
BofA GLOBAL RESEARCH

Exhibit 23: Change in MMF assets and 3m bill yield
Change in MMF assets are typically correlated to front-end yields with a lag



Source: BofA Global Research, Federal Reserve, Haver
BofA GLOBAL RESEARCH

Spreads – EU

Mark Capleton
MLI (UK)

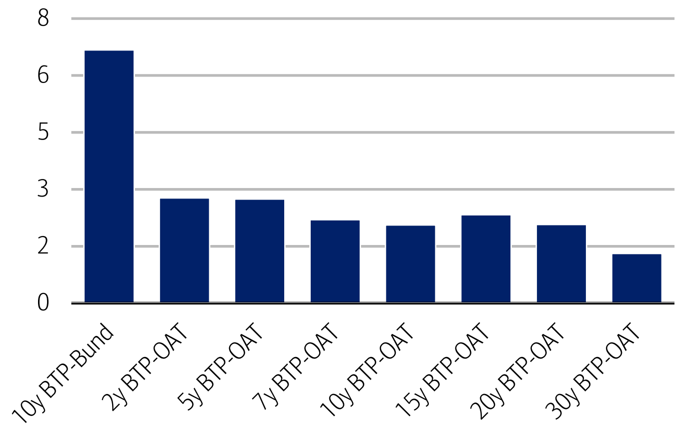
Erjon Satko
BofASE (France)

- The economic paths of France and Italy display a mixed picture
- We look into a 2y BTP-OAT tightener

France/Italy: more convergence in the front-end

We investigate how French government bonds (OATs) move relative to the Italian ones (BTPs). We note that, since 11-June, sovereign spreads widened (with BTP-Bund widening over 6bp on interpolated rates in the 10y tenor for example) and BTPs underperformed OATs across the curve (Exhibit 24 and Exhibit 25).

Exhibit 24: Spread moves since YTD tights
BTPs have underperformed OATs across the curve



Source: Bloomberg. Basis point change since 11-June in spreads. All time series refers to interpolated rates from Bloomberg RV

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Exhibit 25: 10y BTP-Bund spread in basis points
After testing new lost, the spread has been widening since 11-June

Source: Bloomberg

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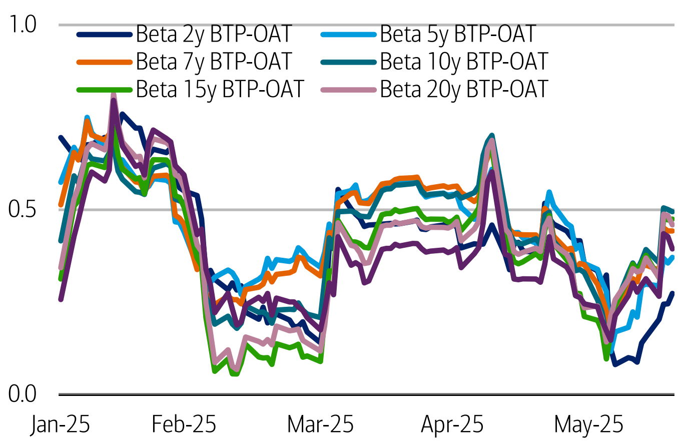
Across all tenors, since 28-May, BTPs over-reacted when markets traded "risk-off" relative to OATs across all tenors (Exhibit 26 and Exhibit 27) with 2y BTPs testing OATs.

Exhibit 26: 1m beta coefficient of BTP-OAT vs 10y BTP-Bund (changes)
The coefficient of BTP-OAT vs 10y BTP-Bund is lowest for the 2y BTP-OAT



Source: Bloomberg. Rolling window regression of 1-month on daily data (no exponential decay)

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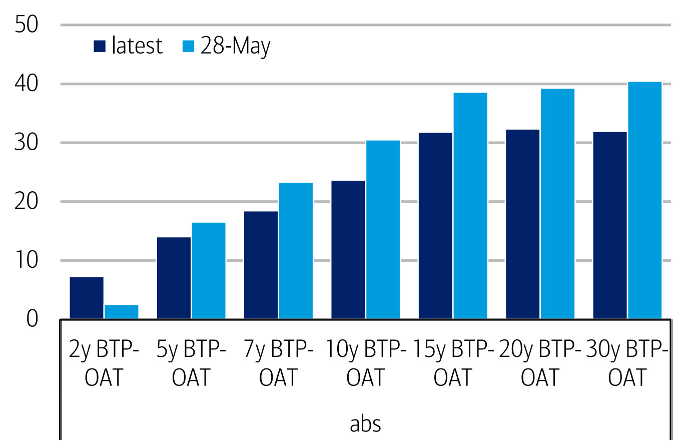
Exhibit 27: Spread levels across tenors BTP vs OAT
Levels in basis points



Source: Bloomberg

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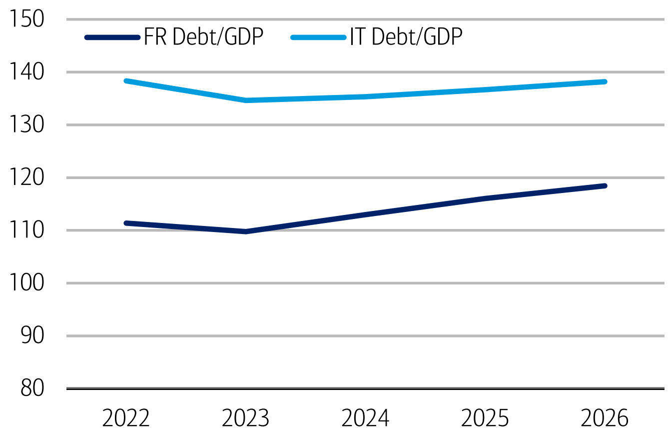
The risk profile for France and Italy heading into the end of the year is mixed. Fiscally, France is expected to face harder challenges given the larger deficit (Exhibit 29), with Debt/GDP increasing at a faster pace relative to GDP on European Commission numbers.

Exhibit 28: Debt/GDP in France and Italy up to 2026f
French Debt/GDP rises at a faster pace than the Italian but from a lower level



Source: European Commission. Value in %

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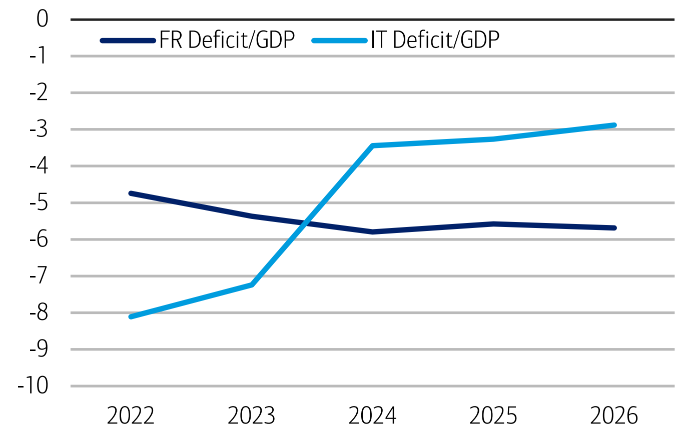
Exhibit 29: Public deficit in France and Italy up to 2026f
French public deficit path is much worse than Italy's on unchanged policies



Source: European Commission. Value in %

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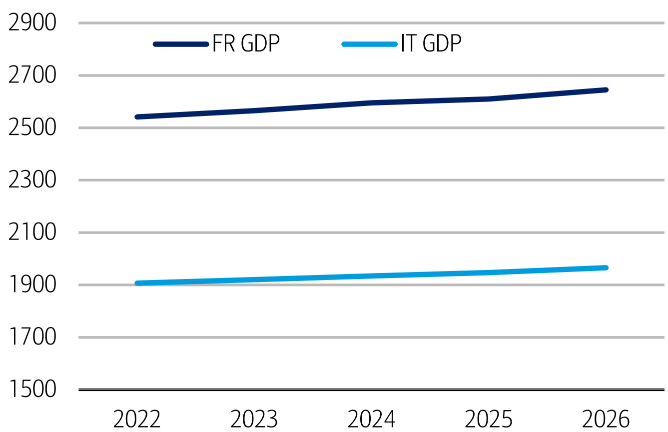
Even if the Commission is more optimistic about France in 2026 (Exhibit 30), our economists see GDP growth being the same in France and Italy over 2025 and 2026 (0.4% and 0.7%).

Apart from the mixed macro picture, idiosyncratic uncertainty is likely higher for OATs than for BTPs on the economic and political side (Exhibit 31), with the former approaching a month, July 2025, that would re-allow the possibility of snap elections to be called following the end of the grace period triggered by the one last year. The new measures needed to reign in the large public deficit in France can be one first trigger for political volatility heading into autumn.

Exhibit 30: Gross Domestic Product in France and Italy up to 2026f
French GDP seen rising faster by the European commission, but downside risks



Source: European Commission. Values in EURbillions

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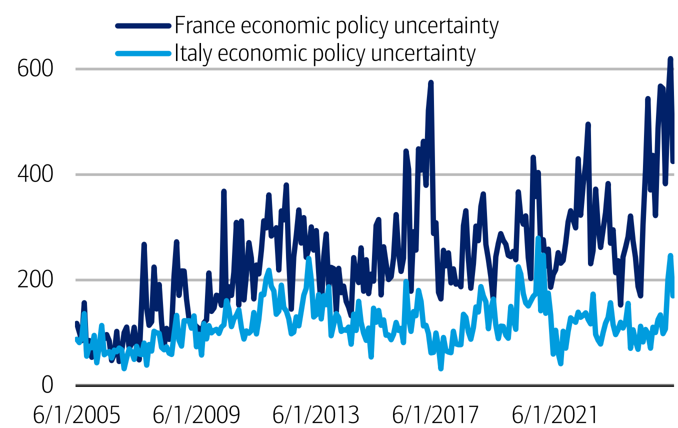
Exhibit 31: France/Italy Economic Policy Uncertainty from Baker, Bloom Davis
Economic policy risk is much higher in France than in Italy



Source: Bloomberg, Barket, Bloom, Davis

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Considering the larger net supply expected from France than for Italy until September (read European Rates Supply Preview: Week ahead 16 June 2025), we like positioning for a 2y Italy-France tightener at 7bp on Bloomberg's interpolated rates, targeting -10bp and with a stop at 16bp. Positive developments on French fiscal or larger than expected front-end supply from Italy are among the main risks to this view.

Special Topic

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BofAS

- Expansion likelihoods up to c.75-80%, ERP tighter by c.55bp & risk bias increased slightly since early May. 10y nominals & RYs trade cheap vs FV. Tariffs pullback & fading negative bias in data drive some of the cheapness, but a less virtuous dynamic driven by higher oil prices and geopolitical risks has also contributed.

From Monthly rates models: June '25, 16 Jun '25

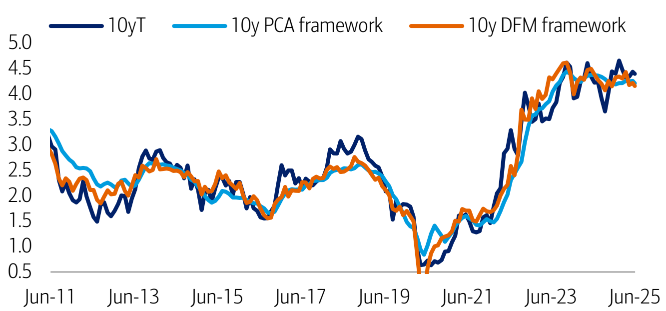
Rates models update

Despite increasing geopolitical risks, 10y nominal & RYs trade cheap to fundamental fair value (Exhibit 32). Declining recession likelihoods on the tariffs pullback & fading negative momentum in macro data (Exhibit 33) drive some of the cheapness.

However, a less virtuous dynamic driven by higher oil prices on increased geopolitical tensions has likely also contributed & enhanced expansion likelihoods proxied by the frequency of bear widening moves in the dynamic of 10y BEs (Exhibit 34). BEs, however, seem to trade only marginally wide vs fundamentals, as the market also faded more structural stagflation scenarios (Exhibit 35), which suggest scope for widening on further pressure on the energy complex (in this framework a +$10 increase in WTI implies c.5bp widening in 10y BEs).

Metrics of portfolio risk bias suggest a slight increase in risk appetite from early May & short vol bias (carry positive).

Exhibit 32: 10yT macro fair value
10yT trades cheap to fundamentals fair value c.4.15-4.2%



Source: BofA Global Research; Bloomberg

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Exhibit 33: Evolution of macro factors over the last 3m
Negative momentum in macro fata has been fading over the past 8w, with Growth factor only to still show slight negative bias

	Factor changes					
	4w	Z-Score	8w	Z-Score	12w	Z-Score
Global	0.00	0.00	0.09	0.03	-0.78	-0.18
Growth	-0.51	-0.34	-1.34	-0.62	-3.38	-1.15
Inflation	0.27	0.26	0.74	0.36	1.49	0.49
Employment	0.02	0.01	0.23	0.08	0.77	0.19

Source: BofA Global Research

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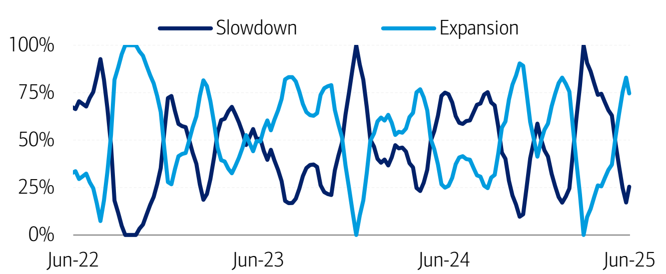
Exhibit 34: Likelihood of slowdown vs. expansion scenarios (1-month average frequencies) extracted from the dynamic of 10y BEs
Expansion likelihoods now c.75-80% currently



Source: BofA Global Research

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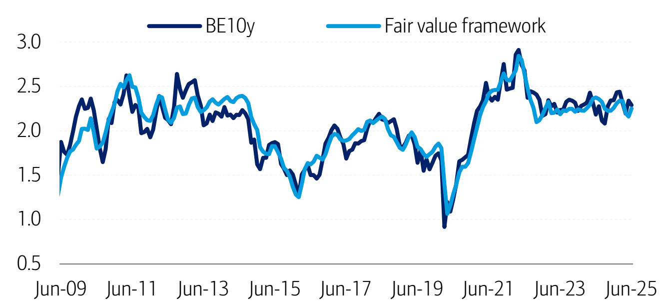
Exhibit 35: Macro framework for 10y BEs
10y BE trading only marginally wide to c.220-225bp fair value



Source: BofA Global Research; Bloomberg

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Rates Alpha trade recommendations

Exhibit 36: Global Rates Trade Book - open trades
Open trades

	Open Trades	Entry Date	Entry	Target	Stop	Latest Level	Trade rationale	Risk
Europe	Long 2y IT vs FR	20-Jun-25	7	-10	16	7	Differential in macro & political risk	Larger front-end BTP supply risk-off move
Europe	Short 5y EU vs NL	19-Jun-25	21.8	30	17	22.4	Tactical short on high 2H25 supply	Lower than expected issuance
Europe	OATei 2038/53 real curve flattener	13-June-25	20	0	30	18	Convexity value of 30y linker oversold	Heavy supply of 30y issue
Europe	Receive 5y5y "real ESTR" rate	14-May-25	74	25	100	65	Real rate too far from "neutral"	Robust economic growth in the Eurozone
Europe	Long 10y Spain vs Germany & Italy	9-May-25	25	15	31	28	Spain richens back on credit fly	Italian upgrade, Slow capex in Spain
Europe	2y3y/5y5y Euro inflation steepener	2-May-25	20.0	35.0	10.0	19.9	Swift fall in inflation	Stalling disinflation
Europe	Receive BTPei 2033-39 fwd yield	1-Apr-25	358	300	400	327	Bullish call, RV, index events	Generalized Italy cheapening
Europe	Long EU 30y vs Netherlands	28-Mar-25	72	60	80	72	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	189bp	Continued ECB easing and SNB pause	Negative SNB policy rate
Europe	6m5y 1x1.5 rec	5-Feb-25	0bp	14bp	-10bp	0.5bp	Repricing of ECB terminal lower	Rally beyond downside breakeven
Europe	Short 1y1y vs 1y10y vol	24-Nov-24	6.5bp	20bp	-10bp	14bp	Underperformance of left side on dovish ECB	Hawkish policy shift
Europe	Long 30y Bunds vs Netherlands	24-Nov-24	14.5	25	8	13	Fade the cheapness of GE long-end	Change in German constitution
Europe	Pay 1y1y Euribor-€str basis	24-Nov-24	21.5	30	17	24	Reduced liquidity, increased term funding cost	New ECB LTROs / early end to QT
Europe	5y1y ATM-25/-100bp rec spread	8-Feb-24	25bp	60bp	0	23bp	Lower ECB terminal rate, without negative carry	Better than expected EUR data
UK	Rec Nov MPC-dated Sonia	13-Jun-25	3.78%	3.50%	3.95%	3.81%	Market underpricing our base case	Stickier than anticipated inflation
UK	1s2s RPI flattener	23-May-25	7	-30	25	-18	RPI forecast, RV anomaly	Falling energy prices
UK	Receive fwd UKTi real rates/pay fwd TIPS real rates	14-May-25	22	-40	50	-16	DMO Shortening its issuance	Poorly digested long-dated supply in Gilts
UK	Long 30y Gilt on ASW	2-May-25	91	75	100	88	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	-25	Retail demand for low coupon Gilt	Change in the tax treatment of Gilts for retail
UK	UKTi 2037/39 real curve flattener	24-Oct-24	17	9	25	19	Attractive level; low coupon value	Supply related dislocation
UK	UKTi 2032/36/47 barbell (+43.8%/-100%/+56.2% risk)	05-Sep-24	14.8	5.0	20.0	11	Expect forward flattening	Illiquid conditions
UK	Short Sonia 3s5s7s (pay 5s)	05-Sep-24	-12	10	-21	-5.6	Mortgage paying flows	Stamp Duty tax rise at the Oct budget
UK	Sell UKTI 2036 v UKT 2042 on ASW	26-Jul-24	-21	-8	-28	-22	Historical extreme spread	Poor nominal auction demand
US	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
US	Pay Dec FOMC OIS	15-May-25	3.78%	4.25%	3.5%	3.87%	Fade '25 rate cuts	Fed cuts get priced back into '25
US	Short 30y swap spread	30-Apr-25	-90	-110	-75	-92	Disappointment in de-regs and deficits	WAM shortening by Treasury or Fed
US	18m1y vs 6m1y rec	1-May-25	0bp	30bp	-15bp	53bp	< frontloaded cuts, > backloaded cuts	>frontloaded cuts with < medium term
US	6m fwd 2s10s floor ladder	1-May-25	46bp	17bp	-10bp	36bp	Underperformance of curve vs fwds	Flattening beyond the c.20bp BE
US	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
US	6m10y payer spreads	7-Apr-25	8.5bp	25bp	-8.5	6bp	Fed on hold, limited scope for bearish shocks	Limited to upfront premium
US	6m5y payer ladder	7-Mar-25	0bp	25bp	-10bp	2bp	Repricing of Fed policy through higher	Selloff beyond downside BE
US	6m1y rec spd	21-Jan-25	11bp	25bp	-11bp	8bp	Higher slowdown likelihoods	Limited to upfront premium
US	Sell 1m10y vs 6m10y receiver	21-Jan-25	0bp	20bp	-10bp	6bp	Higher slowdown likelihoods	More significant rally near vs medium term
US	1y1y receiver 1x1.5	12-Dec-24	9bp	60bp	-15bp	-5bp	Hedging slowdown scenarios	Aggressive hard landing scenarios
US	1y fwd 5s30s bear steepener	24-Nov-24	0bp	30bp	-15bp	29bp	Term premium build & reacceleration scenarios	Bear flattening on hawkish Fed
US	1y10y payer spd vs 3m10y payer	24-Nov-24	0bp	30bp	-15bp	-4bp	Higher recalibration/reacceleration likelihoods	Frontloaded sell that fades medium term
US	1y1y straddles vs strangles	24-Nov-24	+0.31%	20bp str /vega	-10bp str /vega	0.27%	Long vol of vol	Lower vol of vol
US	Long 5y30y vol vs 2y30y vol	24-Nov-24	+5.5bp vega	15bp vega	-10bp vega	5bp	Vega supported bearish tail scenarios	Outperformance of intermediate vs long vega
US	3y1y rtr spd a/-50bp	6-Nov-23	pay 23bp	50bp	-23bp	4bp	Soft landing scenario	Capped to premium
US	Long 1y10y rtp spd vs 4m10y rtp	3-Jul-24	0bp	20bp	-10bp	-14bp	Bearish election risks medium-term	Frontloaded bearish risks
APAC	US 10y invoice spreads	30-May-25	40	60	25	55	Fiscal divergence	US reg reform, AU budget update
APAC	Pay 3y swap EFP (q/q)	28-May-25	-9.5bp	10bp	-19.5bp	-7.1bp	Bond demand underestimated, LIBOR-OIS risk underpriced	Global spread tightening
APAC	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
APAC	AU 6m3y receiver 1x1.5	27-Mar-25	4bp	30bp	-15bp	6bp	Dovish repricing of RBA terminal	Hawkish RBA shift
APAC	JP 1y2y payers spd vs 1y10y payers	24-Nov-24	0bp	40bp	-15bp	-2bp	Bear flattening of the curve	Lagging BoJ & curve bear steepening
APAC	JP 1y5y payer ladders	24-Nov-24	0bp	28bp	-10bp	3bp	Repricing of policy trough	Underperformance vs. downside b/e
APAC	KR 1y fwd 2s10s bull steepeners	24-Nov-24	0bp	25bp	-10bp	15bp	Dovish BoK and bull steepening	Hawkish shift for BoK
APAC	KR 1y5y receiver spd	24-Nov-24	-16bp	34bp	-15bp	28bp	Repricing of policy trough lower	Capped to upfront premium

Exhibit 37: 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 the 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 37: 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 the 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 37: 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 38: 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 39: 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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