Global Rates Weekly

A tale of two premiers

10 October 2025

Rates Research
Global

The View: Focus shifts from data dearth

Continued US data dearth increases focus on refunding and politics outside the US.

— R. Preusser

Rates: Slow shutdown days

US: We hold core rate views: pay front end, flatteners, & long inflation. Market will soon turn to refunding & UST WAM themes, supporting flatteners.

EU: Snap elections in France are likely to be avoided near-term, with a budget presented on time. We see a tightening in 10y OAT-Bund to 75-80bp but risks skewed wider.

UK: Possibly a more volatile week ahead with the regular S&P credit rating review, labour market data and the new UKT 5.25% 2041 syndication.

AU: We recommend carry-rich curve flatteners ahead of next week's jobs report.

JP: Takaichi wins LDP race; favors looser fiscal/monetary policy, but scale of expansion will depend on inter-party fiscal talks. Expect looser fiscal/monetary policy to steepen JGB curve in 4Q.

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

Front end: FHLB liquidity & SOFR/FF widening

US I: FF likely to keep rising as FHLBs use repo alternative to exert pricing power; stay long SOFR/FF.

US II: We revise our Oct T-bill supply forecasts higher by ~$80b to $146b following bill auction size increases over the last two weeks.

EU: The 31Dec25 BTF will mature on New Year's Eve and we believe it may cheapen by a further c. 5-10bp and put richening pressure on GC and €str over the year-end turn.

— M. Cabana, K. Craig, R. Man

Spreads: Potential rebalancing focus

EU: We estimate foreign holdings of French gov't bonds and detail potential outflow risk.

AU: Rising gold prices are a tailwind for AU spreads and we like paying 3y swap EFP.

—E. Davidsson, O. Levingston

Inflation: Global imbalances and real yield differences

EU: Next week's IMF WEO will update its assessment of global imbalances, reminding us of their link to real yields. We think it's time to switch 30y TIPS into 30y BTPei.

— M. Capleton

Technicals: This signal points US 30y yield lower in Q4

A key moving average cross may happen soon. It would suggest the US30Y yield is lower in 15-45 trading days w/emphasis on 35-40 trading days (Late Nov-early Dec).

— P. Ciana

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Acronym/Abbreviation on page 30

Timestamp: 10 October 2025 06:00AM EDT

Our medium term views

Exhibit 1: Our medium-term views
Global views

Rationale	
Duration	• US: underweight, esp the front end. Pay April '26 FOMC OIS; April priced below end '26 median Fed dot with a cautious cutting cycle • EU: We are long 10y Bunds and received 10y5y €str. We expect lower rates (terminal Depo of 1.5). We expect 10y Bund yields to decline below 2.5% in 2H25, before selling off to 2.70% in 2026. • UK: We are broadly neutral Sonia relative to the forwards in the 10y, forecasting Sonia at 4.15% by end-2025 and 4.25% by end-2026. We are constructive Gilts tactically. • JP: We expect the 10yr JGB yields to rise to 1.65% at end-2025. Lingering supply-demand concerns. • AU: we recommend carry-rich flatteners because the range of outcomes for the RBA is narrow. We like paying 6m1y, receiving 1y5y swaps. .
Front end	• US: long Jan SOFR/FF. Fed funds is moving higher in range. Fed QT stop (expected end '25) should see MBS repayments shifted to bills, lowering repo • EU: Bank demand for excess liquidity may outstrip supply: Euribor-€str widening, repo to stay cheap vs €str. Receive Mar26 €str on more cuts to come. • UK: Future BoE cuts are likely delayed, but we continue to see Bank Rate cuts priced by YE as akin to a cheap "out-of-the-money option". We receive Dec MPC-dated Sonia. • JP: We believe the next rate hike will be delivered in January 2026. TONA is likely to remain slightly below IOER in 2025. • AU: We recommend 1y1y BOB steepeners – funding markets to tighten as RBA drains liquidity.
Curve	• US: 2s10s flatteners on fundamentals and front end SOFR H6/H7 flattener on the back of our less aggressive Fed cuts expectation • EU: given the more hawkish ECB reaction function, we see potential for the EUR 2s10s curve to come under flattening pressure in 2H25. Further out, we believe the 10y-30y bond curve can be resilient but look for a shift in P&I receiving to shorter maturities, leading to additional steepening in 10s30s swaps from year-end. • UK: By value, BoE's active Gilt sales will increase in short and medium Gilts but not in longs, reinforcing our long-end flattening bias. Pay 10y Sonia v. 30y Gilt long • JP: We think the 5s30s curve could steepen again due to a lack of demand and potential for the Japanese government to draw up a supplementary budget. • AU: We see flatter curves, outright and vs US. RBA to deliver fewer cuts than market pricing.
Inflation	• US: long 10Y B/E inflation as hedge for loss of Fed independence; 1y10y inflation swap steepener on compression in near term inflation risk & more risk of persistence • EU: We favor receiving 10y5y real €str and 2y3y/5y5y inflation curve steepeners. We also recommend shorting OATei 2047s vs BTPei 2056s on iota. • UK: We would receive forward real yield between UKTi 2035 and UKTi 2049, vs paying equivalent forward in TIPS. Be long UKTi 2027s on z-spread, expecting bank demand. • JP: Food inflation which has been the main driver of CPI is expected to slow. Thus, 10yBEI is unlikely to rise further in the near-term.
Spreads	• US: Treasuries are cheap historically and post-April tariff announcements. UST swap spreads offer value over MBS, IG, and HY. • EU: the periphery has been resilient as investors focused on the improved medium to long term EZ growth outlook, but are cautious near term given complacency around the trade war with the US, and richness to equity & vol. We expect mild tightening pressure on 2-10y German swap spreads. • UK: We continue to see scope for some 30y Gilt performance ahead and stay long 30y Gilts on ASW. • JP: Given (1) the fiscal risk and (2) BoJ's QT, JGBs are likely to be cheaper vs matched maturity swaps. • AU: We see wider swap spreads, especially in the front end. We like tighter semi ASW and semi-ACGB spreads in the long end.
Vol	• US: Vol targets. 2H25 targets: 1y10y 80-95bp; left underperformance vs right, 1y10y vs 1m10y spread fair c.5bp (±5bp). Long fwd vol bias. • EU: We expect implied vols to come lower with 1y10y around 70bp range and LHS cheapening vs RHS. • AU: Vol bias continues to be lower and directionally skewed towards receivers. Less scope for left to underperform vs right.

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Our key forecasts
Global forecasts

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

Source: BofA Global Research

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What we like right now

Exhibit 3: What we like right now
Global views

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

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

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The View

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The week that will be

IMF meetings often set the market narrative for the following months. Whether next week's meetings will do the same is questionable given the continued US government shutdown. Next week will see CPI and retail sales join the calendar of missing-in-action data releases. We maintain our paid front-end position, 2s10s flatteners and breakeven longs.

In the absence of data releases, the main event for the US rates market may be the October dealer survey questionnaire for the November refunding, given the anticipated updated analysis on the optimal debt structure (see Rates US). Near term, we expect increased bill issuance to keep pressure on front-end funding rates and maintain our long in SOFR/FF (see Rates – US).

Labour market data in Australia and the UK are also on the agenda. With the front-end of the AU curve still pricing in c.10 bp for November compared to less than 1 bp for the UK, a downside surprise in the UK has the bigger chance of being market moving, especially with AU front-end pricing insensitive to labour market data surprises recently. We look for carry rich flatteners in AU rates and maintain our long position in Dec MPC as a cheap hedge against weak data in the UK – next week is the first of three labour market and inflation prints before the December meeting.

In the Euro Area, markets will pay attention to ZEW, given the weakness in German data this week and the downside surprise in IFO two weeks ago. We will focus more on our economists' update of the seasonally adjusted moment in inflation which requires the detail in the final inflation prints next week.

Finally, we may see another attempt at a government formation in France, as well as the fall Diet session open in Japan, which should see Takaichi sworn in as new PM in Japan. We stay cautious on OAT-Bund spreads, short JPY and JGBs.

The week that was

Sanae Takaichi was elected president of Japan's Liberal Democratic Party. We think fiscal policy expectations will likely weigh on superlong JGBs given (1) the expansionary fiscal stance Takaichi shares with opposition parties, (2) market positioning skewed toward flatteners, and (3) political and fiscal policy uncertainty through year-end. We think Takaichi's victory will cool market expectations for an October rate hike and lower the assumed level of the current cycle's terminal rate. Through year-end, we would look to buy USD/JPY on dip and expect a steeper curve (see report: Japan Macro Watch 5 Oct 25).

The French government collapsed on Monday. We do see a narrow path towards a budget compromise, still, risk reward for OATs remains challenging (see report: Euro Area Watch 9 Oct 25).

German IP and factory orders data helped refocus some attention on the downside risks to EA data as the front-loading of US orders unwinds in 2H25. We remain long EUR rates both in the front-end and in 10-15y.

Rates – US

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Ralph Axel
BofAS

- We hold core rate views: pay front end, flatteners, & long inflation.
- Market will soon turn to refunding & UST WAM themes, supporting flatteners.

Slow shutdown days

US rates rose modestly in a quiet trading week with limited data amidst the ongoing government shutdown. BAC card data still reflect a resilient consumer (see report: BofA on USA) and increasing wage pressures despite a slowdown in total hiring (see report: BofA institute). FOMC minutes suggested a divided and cautious cutting Fed.

Our macro framework reflects slower employment & inflation factors + softer growth over the past month, while the rates dynamic suggests c.60-65% likelihood of slowdown.

Exhibit 4: Evolution of macro factors for the US economy
Softer inflation & employment factors, marginally softer growth past month

	Factor changes					
	1m	Z-Score	2m	Z-Score	3m	Z-Score
Broad Macro	0.15	0.08	0.48	0.17	**-0.10**	**-0.03**
Growth	**-0.08**	**-0.05**	0.26	0.11	0.54	0.16
Inflation	**-0.06**	**-0.06**	**-0.29**	**-0.14**	**-0.90**	**-0.31**
Employment	**-0.04**	**-0.02**	**-0.12**	**-0.04**	**-0.13**	**-0.04**

Source: BofA Global Research

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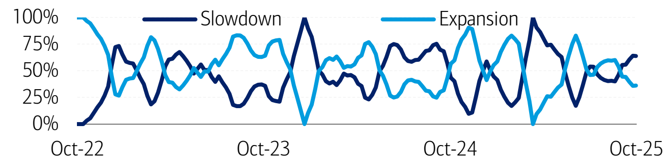
Exhibit 5: Expansion vs slowdown likelihoods in 10y B/E dynamic
Recent dynamic suggests c.60-65% slowdown likelihoods



Source: BofA Global Research

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On balance, we continue to hold our core rate views: duration = underweight & paid Apr ‘26 FOMC OIS; curve = 2s10s flatteners with cautious cutting Fed & elevated rate cuts priced; inflation = long 10y B/E & 1y10y inflation steepeners; spreads = constructive front end spreads on attractive carry & roll; vol = lower left vs rights side; front end = long Jan ‘26 SOFR/FF with expected increases in FF rate & QT stop at end ‘25.

Below we discuss the Nov refunding & updated bill supply estimates. Nov refunding & higher near-term bill supply should be modestly supportive for our curve flattening.

See BofA on USA report for methodology, limitations, and disclaimers related to BAC aggregated credit and debit card data.

November refunding: signals of WAM shortening

The rates market narrative will likely soon shift focus to the November refunding (Nov 5) & October dealer survey questionnaire (released Oct 17). We expect refunding to reinforce expectations for increased UST reliance on bills & WAM shortening. Clients have also asked if UST will increase long-end buyback sizes, given rising offer to cover ratios (Exhibit 7). We see an increase as unlikely due to relative stability in back-end rates and UST’s tendency to react slowly to growing demand for buybacks.

The November refunding communications are expected to include an updated analysis of “optimal debt structure”, which will likely favor shorter & belly issuance vs the long end. We see 2 bits of evidence for this shift: (1) Aug refunding communications = “a refresh of the optimal debt structure analysis could be beneficial” & “evolution in demand patterns suggests increased demand in front end and intermediate maturities relative to reduced demand in longer end maturities” (2) Mar ‘25 Brookings paper = optimal debt issuance model suggests “increase issuance in the belly of the curve, while reducing issuance in both front-end and long-end maturities” & “skewing a higher share of future increases in debt issuance toward long-term maturities will not provide an effective trade-off between funding cost and risk reduction if the term premium increases toward historical (pre-2017) norm”.[1]

[1] See: “Update on the structure of US Treasury debt from a model’s perspective”, Colin Teichholtz, Brookings, March 10, 2025

A Nov refunding TBAC study of "optimal debt structure" will likely find it beneficial to rely more on front end / belly vs long end because (1) growth of UST debt in recent years has increased interest expenses & variability of interest expense (2) signs of stronger demand in shorter / belly tenors vs longer tenors. TBAC will likely cite term premium estimates to justify UST demand preferences across the curve; we think persistent & growing inversion of the UST asset swap spread curve better proves the supply / demand imbalance point (Exhibit 6).

Increased market focus on the Nov refunding should support our curve flattening bias. It should also be marginally supportive of long-dated asset swap spread richening, which was a contributing factor to our recent decision to close our 30Y spread short (see report: Treasuries as an attractive carry trade). Increased UST reliance on bill issuance may be a headwind to front end spreads but we expect front end spread cheapening will be limited due to: (1) attractive carry & roll (2) subdued vol environment.

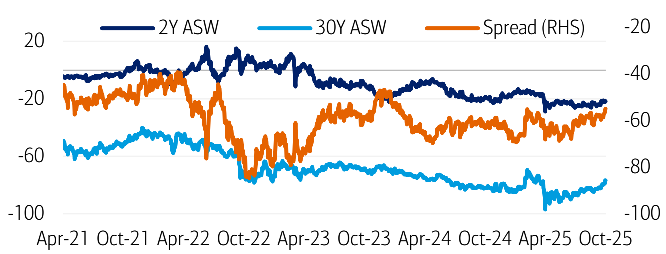
Higher near-term bill supply & fed funds pressure

This week UST surprisingly increased bill auction sizes for the second straight week. UST increased sizes despite the government shutdown, which some clients expected would result in a smaller deficit. Indeed, TGA deposits are higher while withdrawals flat vs last year. UST is likely anticipating a higher financing need for the remainder of Oct vs our prior forecasts.

We now estimate Oct net bill issuance will be $146b vs ~$60b previously. We have subsequently revised lower our Nov net bill issuance (current = $136b vs $219b prior). Higher bill supply in Oct makes us think UST sees upside risks to their Q4 financing estimates which poses upside risks to our November bill estimates. For more detail see: Front end – US II & Bill supply update (see report).

Increased bill supply has put pressure on front end funding rates, which has spilled over into fed funds (FF). We believe the recent FF increase within Fed target range reflects a bargaining power shift from foreign banks to Federal Home Loan Banks (FHLBs). We believe FHLBs have likely shifted their liquidity investments from FF into repo, which explains the recent decline in FF volumes. With repo elevated vs FF, FHLBs exerted pricing power by limiting FF volumes and forced another move higher in FF on Wednesday. Our expectations for higher FF are a key reason for us to remain long Jan '26 SOFR/FF. For more detail see: Front end – US I & FHLB liquidity & SOFR/FF (see report).

Exhibit 6: 2 & 30Y asset swap spreads + spread difference (bps)
The inversion of the ASW spread curve proves supply/demand imbalance



Source: BofA Global Research, Bloomberg

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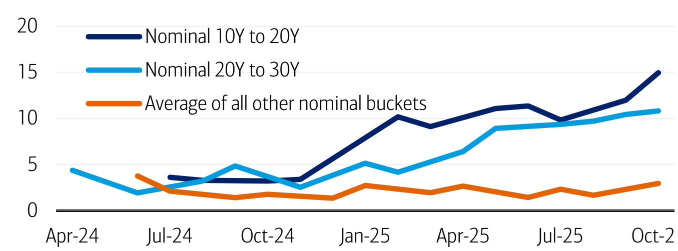
Exhibit 7: Amount offered as a % of buyback operation by tenor
Buyback offer to cover ratios have increased for long-end USTs



Source: BofA Global Research, TreasuryDirect

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Bottom line: The US government shutdown has led to a lull in rates markets from limited data; we hold our core rates views. Recent increases in bill auction sizes have reinforced expectations that Treasury will rely more on T-bills and focus on WAM shortening at the upcoming Nov refunding. Increased reliance on bills will likely be a headwind to front-end spreads but we expect cheapening to be limited.

Rates – EU

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MLI (UK)

Ronald Man
MLI (UK)

Alessandro Infelise Zhou
BofASE (France)

- In France, with a majority still against a dissolution of parliament, there is a path for a government to be named and the 2026 budget to start being debated next week. Our baseline is for a slight reduction of the deficit vs the 5.4% target for 2025.
- We see 10y OAT-Bund spread at 75-80bp on a centre-left government with risks skewed wider; front-end impact may be bigger if more downgrades are expected.

Please try again

On 6 October, Sébastien Lecornu resigned as France's Prime Minister. Snap elections are likely to be avoided however, as there is a majority against a dissolution and some willingness among politicians to find a negotiated solution on the 2026 budget (via painful compromises on pensions and new taxes). President Macron is expected to nominate a new Prime Minister by Friday night, allowing a budget draft to be presented to parliament by the 13 October deadline.

We find little conviction among policymakers, politicians, public institutions, and polling experts in a solution that would generate real stability and a consistent medium-term path for public finances (see report: Euro area watch, 9 Oct 25). However, when it comes to the deficit, despite the wide range of political scenarios, we think the potential outcomes for next year's deficit are relatively range-bound between 5% and 6%:

- We have always found the chances of a drop below 5% next year to be limited. The need for compromises suggests that the deficit will be higher than Bayrou's 4.6% and Lecornu's 4.7% initial targets.
- An agreement of the centrist bloc with the left could target a number around 5%, with some limited adjustments on the spending side and higher taxes, which would not be far from our baseline assumption of a slight reduction of the deficit vs 2025.
- If a budget cannot be approved on time, a "special law" could extend the 2025 budget into next year. There are many moving parts but, overall, we think this temporary arrangement is unlikely to lead to a deterioration in deficit. Unless a new shock materialises, we see a deficit deterioration to 6% or above as unlikely.

If a budget cannot be approved on time, a "special law" could extend the 2025 budget into next year. There are many moving parts but this temporary arrangement is unlikely to lead to a deterioration in deficit because 1) it freezes central government spending at nominal level, 2) there could be more tightening than the outright nominal numbers would suggest, as ministries & local actors take extra precautions (as in 1Q25), 3) additional executive orders (e.g. to freeze some spending chapters) could also be taken.

OAT-Bunds: 75-80bp on new govt, risks skewed wider

In a scenario of a centre-left government with compromises being presented to pave the way for successful budgetary negotiations, we see the 10y OAT-Bund spread trading back in the 75-80bp range. This would be a modest tightening from the current 83bp level, as we already recorded a 2.5bp tightening on the optimism voiced by Lecornu in the morning of 8 October. Extra tightening would be limited by three factors:

- The compromise would likely require a wider deficit than the initial plans of 4.6%, and a suspension of the pension reform that may raise concerns about France's ability to deliver on structural reforms,

- Risks that the parliamentary process is still derailed, and
- The rating reviews. Even if the current level is already consistent with a lower rating (given where other EGB spreads trade), the downgrade cycle can still maintain cheapness in OATs as the buyer base shifts (see Spreads – EU).

These three factors suggest to us that it will be hard to price out the full 10bp cheapening in OAT spreads since July, in the whole EGB complex (Exhibit 8). For this to happen and OAT-Bunds to approach 70bp, we would need to get certainty on the 2026 budget passing, with clarity on the longer-term fiscal path, and commitments on debates and intended adjustments to the pension reform.

Relative to the 75-80bp range discussed above, we see risks as skewed to the upside (wider spread). For one, reduced optimism on the pick-up in European growth over coming quarters could generally pressure EGB spreads wider, including OAT-Bunds. Then new parliamentary elections could push the spread above 90bp as the outcome would be quite uncertain. The market may take comfort that a potential alliance between Les Republicains and Rassemblement National may deliver the same outcome as Meloni's term in Italy, but this is far from given. A resignation of Macron, albeit in our view very unlikely, would represent uncharted territory and could widen OAT-Bunds significantly beyond 90bp. Those scenarios are also likely to lead to broader EGB spread widening.

Front-end: bigger impact if even more downgrades are expected

We believe the impact on short-dated French assets from a 10y OAT-Bund spread of:

- 75-80bp will be limited, while near-term fiscal and political uncertainties persist.
- 80-90bp will still be limited. Cheapening pressures will be there, but French bills are already consistent with further rating downgrades (Exhibit 9). In repo, cheapening in French GC may be limited to c. 2-3bp by 1) banks with excess reserves buying French GC if it cheapens too much above the depo (France one-day GC is at the depo), 2) public institutions placing excess cash in French GC as they get €str-20bp at the Eurosystem ex Buba and 0% at the Buba, and 3) investors that have adjusted their rating requirements to allow for continued purchases of French assets.
- Above 90bp could put more meaningful cheapening pressures but the magnitude will depend on how wide the spread ultimately becomes. A sufficiently wide OAT-Bund spread could 1) put even more upward pressure on short-term funding costs for French banks, and 2) prompt leveraged investors to buy OATs financed in repo.

We believe the impact on short-dated assets may be larger if the market starts to price in a more extreme scenario of France's credit rating at risk of falling strictly below A-. In repo, such large downgrades may put France's eligibility in some triparty systems at risk.

Exhibit 8: Residual of 10y OAT-Bund spreads based on principal component analysis of 10y EGB spreads to Germany (bps)

A c.10bp cheapness has built in OAT-Bunds since July.

Source: BofA Global Research.

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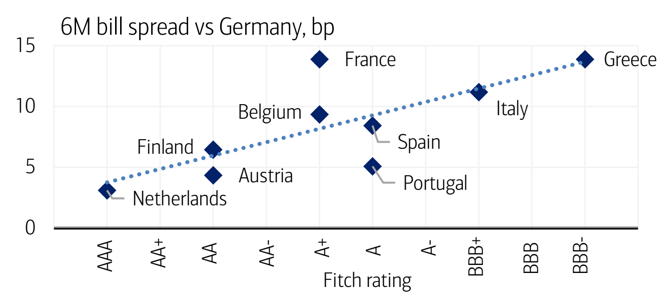
Exhibit 9: 6M bill spread vs Germany and Fitch credit rating

France's bill spread is consistent with further rating downgrades



Source: BofA Global Research, Bloomberg

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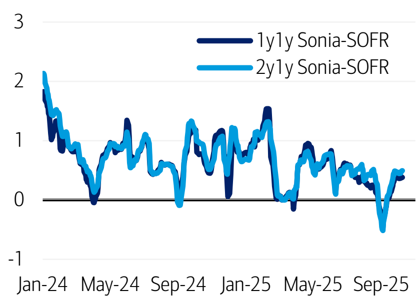
- Possibly a more volatile week ahead with the regular S&P credit rating review, labour market data and the new UKT 5.25% 2041syndication.

Focus on labour market, credit ratings and supply ahead

Front-end Sonia priced out some 3-4bp of Bank Rate cuts in late 2026 this week and front-end directionality to SOFR rebounded from the recent lows (Exhibit 10). Market continues to assign only a limited probability of Bank Rate cuts in 2025 (Exhibit 11). Further out, Gilts cheapened by 3bp on average on the week with the market rather focused on political and macro developments in the EGB space (Exhibit 12).

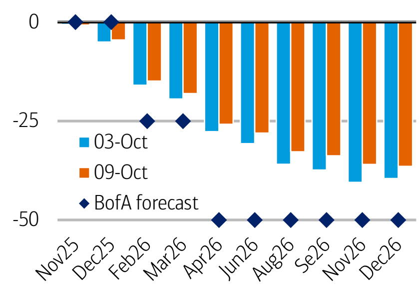
Gilt underperformance in 2-5y likely reflected the small front-end retreat and supply concentration in the area: Monday's £0.775bn Gilt sale by the BoE — of which £0.39bn UKT 1.625% 2028, £0.31bn UKT 4.25% 2032 with the rest split between UKT 0.25% 2031 and UKT 0.375% 2030 — followed by Tuesday's £1.25bn programmatic tender of UKT 0.125% 2028 and Wednesday's £5bn auction of UKT 4% 2029 by the DMO.

Exhibit 10: 1y1y and 2y1y Sonia directionality to equivalent SOFR (bps)
Front-end directionality to SOFR rebounded from the recent lows



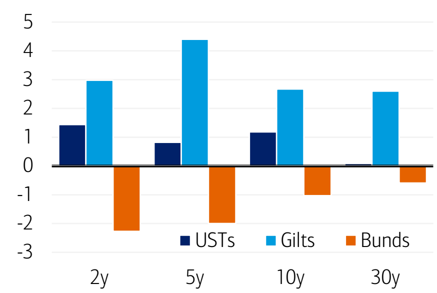
Source: Bloomberg, BofA Global Research
BofA GLOBAL RESEARCH

Exhibit 11: Sonia-implied Bank Rate cut pricing and BofA forecasts (bps)
Front-end Sonia priced out some 3-4bp of rate cuts in late 2026 over the course of this week



Source: Bloomberg, BofA Global Research
BofA GLOBAL RESEARCH

Exhibit 12: UST, Gilt and Bund yield changes since 3 October (bps)
2-5y underperformance likely to do with the small front-end retreat & supply concentration



Source: Bloomberg, BofA Global Research
BofA GLOBAL RESEARCH

Focus next week: S&P review, labour market data and the new UKT 5.25% 2041

Next week's labour market data will be important for the front-end. Our economists' expected 4.7% unemployment rate lies above the Bloomberg consensus of 4.6%. But we continue to see GBP front-end as offering a strong asymmetric risk-reward with a weaker print likely to see a material repricing lower while the bar for an upward repricing is materially higher. We continue **receiving December MPC-dated Sonia** entered at 3.88% on 5 September (see Rates – UK section of Game, Sep, match (see report)) with a target of 3.72% and a stop of 3.96%. Current is 3.92% (trade risk: Sonia drift higher).

S&P will publish its second regular credit rating review after the market close today (10 October). With the UK's public finances being one of their key rating sensitivities, no change in rating and/or outlook ahead of the 26 November Budget is our base case. We highlight the importance of the Autumn Budget for the major credit rating agencies below which is an excerpt from Autumn Budget FAQs (see report) published on 9 October.

Finally on the supply front, the DMO plans a syndicated launch of a new UKT 5.25% 2041 next week, subject to demand and market conditions. We outline below what the syndication could mean for the Gilt Remit update on 26 November. On Wednesday, the DMO will also auction £1.5bn (nominal) of UKT 0.125% 2031.

Does the Autumn Budget matter for the major credit rating agencies?

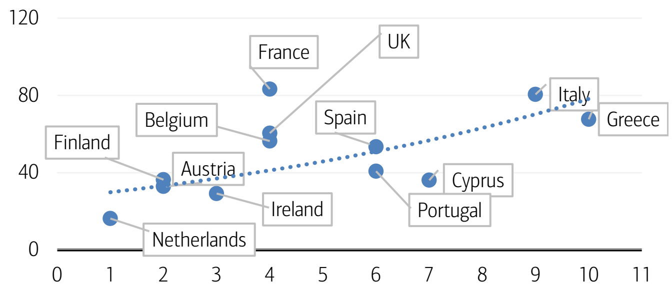
The Autumn Budget and risks to its execution will matter for the major credit rating agencies, with the UK's public finances being one of their key rating sensitivities. In particular, agencies will be looking for evidence of credible and practicable fiscal consolidation plans, or factors which could slow the pace of deficit reduction.

Meaningful changes in the government's debt/GDP trajectory could therefore lead to positive/negative changes in rating outlook and/or rating upgrades/downgrades. But with the UK's current ratings standing in the high investment grade territory, the risk of downgrades to speculative grade (and potential forced selling dynamics) is low, although there may be some investors focusing on "high credit rating" investments only.

More broadly, overseas investors hold around 30% of outstanding Gilts of which a small proportion is foreign central banks. Public institutions that hold Gilts as foreign currency reserves are unlikely to reduce their Gilt allocations sharply unless a cut to speculative grade starts to look possible. In terms of the relationship between credit ratings and bond ASWs, Gilts appear slightly cheap to Bunds currently (Exhibit 13 and Exhibit 14). Credit rating risk premium priced into the market therefore appears limited for now.

Exhibit 13: 10y bond z-spread spreads to Bunds vs. credit rating*

Gilts trading slightly cheap Bund on ASW vs. their current rating



Source: BofA Global Research, Fitch Ratings, S&P Global Ratings, Moody's, Bloomberg.
* Credit rating defined as 1=AAA; 10=BBB-.

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Exhibit 14: Credit rating snapshot and upcoming review dates for 2025

Upcoming reviews all fall due before the Autumn Budget on 26 November

	Current		Upcoming	
	Rating	Outlook	1st review	2nd review
Fitch	AA-	Stable	28-Feb-25	22-Aug-25
S&P	AA	Stable	11-Apr-25	10-Oct-25
Moody's	Aa3	Stable	23-May-25	21-Nov-25

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

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Next week's UKT 5.25% 2041 launch implications for the Autumn Budget

With £8.0bn currently allocated to the long Gilt syndication "bucket" for the two-remaining long-dated Gilt syndications this fiscal year (including next week's launch of UKT 5.25% 2041), results will have important implications for the 26 November Remit.

As outlined in the Rates – UK section of October spooks rates (see report), depending on the amount of cash raised this October, the DMO can choose to reopen the same Gilt via syndication in January 2026 as a long-dated Gilt still, or raise more next week and potentially cancel the 1Q26 syndication, or (if aiming for a stronger WAM shortening signal) cancel some, if not all, 1Q26 long Gilt auctions.

Yet another strong signal of the DMO's commitment to managing down the Gilt supply WAM would support our constructive long-end bias:

- We **keep long 30y Gilt on ASW** (using UKT 4.375% 2054) with a target of 75bp (monitored on z-spread basis) and a stop of 100bp (we entered the trade on 2 May at 91bp: for more see our report: On the lookout for slower QT hints). Current: 92bp. Risk to the trade is material fiscal slippage against deficit objective.

- We **keep pay 10y Sonia versus long 30y Gilts** (using 30y benchmark UKT 4.375% 2054) entered on 19 September at 139bp targeting 120bp with a stop of 155bp (see our report: United Fedlines for more). Current: 134bp. Risk to the trade is sharp curve steepening on the back of fiscal worries.

Rates – AU

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Merrill Lynch (Australia)

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Merrill Lynch (Australia)

- We recommend carry-rich curve flatteners: paying 6m1y swaps, receiving 1y5y swaps.
- Next week's jobs report is key but AU rates is likely to remain range bound while the Fed is cutting rates.

We recommend AU 6m1y v 1y5y flatteners

We like carry-rich flatteners given the narrow range of plausible outcomes for AU rates. We recommend paying AU 6m1y, receiving 1y5y swaps (5.2bps carry/ quarter). We enter the trade at 62bps with a target of 38bps (stop 74bp). Risk: weak AU jobs report.

AU jobs report likely important for front-end pricing

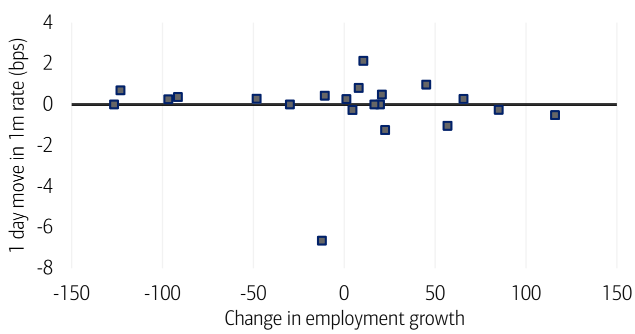
Next week's jobs report is key to the near-term outlook for AU rates and we like carry-rich flatteners given elevated risks that the RBA will leave rates unchanged for the foreseeable future. Our economists predict the Australian economy added 18,000 new jobs in September and the participation rate inched higher from 66.8% (66.84% unrounded) to 66.9%, leaving the unemployment rate unchanged at 4.3%.

Given monthly volatility in employment growth and the participation rate, a large miss (or beat) is conceivable next week. Our economists continue to forecast the RBA will lower rates by 25bp in November (ending the easing cycle) but they have highlighted risks that the RBA pauses in November if the jobs report prints in line with expectations.

What's priced in?

Although jobs reports have not tended to trigger large moves in front-end rates (see Exhibit 15 and Exhibit 16), an unexceptional jobs report and quarterly CPI broadly in line with market expectations could trigger a pause in November. With just 7bps of cuts priced, this outcome is arguably priced in and the risk is a move lower in front-end rates following a weak jobs report.

Exhibit 15: Market reaction to labour market prints since Jan '24
Even large job gains/ losses tend to elicit small reactions



Source: BofA Global Research, Bloomberg, ABS *1m rates = 1m bank bill swap rates
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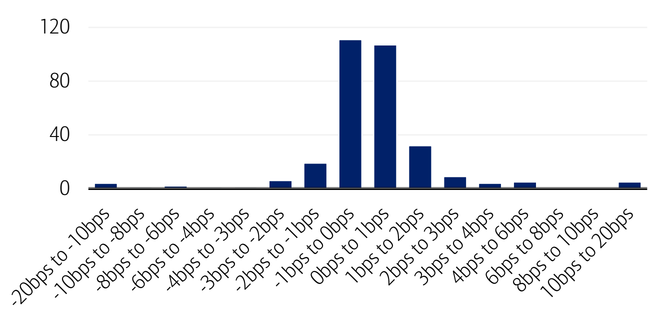
Exhibit 16: 1-day reactions to job reports (frequency of moves in 1m BBSW rates), 2004-2025
Job reports do not tend to trigger large moves in front-end rates



Source: BofA Global Research, Bloomberg
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Yet forward-looking indicators point to the unemployment rate remaining broadly stable around 4.3% through 2H25 and 2026. Job vacancies and our summary leading indicator point to solid labour demand. See report: Australia Viewpoint 09 October 2025. We would recommend selling any rally driven by a weak jobs report.

Bottom line: the RBA is close to the end of its easing cycle and it will be difficult for the market to price hikes while the Fed is cutting rates. Carry-rich flatteners are likely to perform in this environment and we like paying 6m1y, receiving 1y5y swaps.

Rates – JP

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- Takaichi wins LDP race; favors looser fiscal/monetary policy, but scale of expansion will depend on inter-party fiscal talks.
- Expect looser fiscal/monetary policy to steepen JGB curve in 4Q.

This is an excerpt from Japan Macro Watch: 05 October 2025 (see report)

Takaichi surprises the market with LDP leadership win

Sanae Takaichi has been elected president of Japan's Liberal Democratic Party (LDP) following her 4 October victory in the leadership race. We think most market participants saw a Koizumi victory as the base case and will likely view Takaichi's win as a surprise.

Favors procyclical fiscal policy, but unclear to what extent

Takaichi is a known advocate of procyclical fiscal policy and is likely to take a more expansionary stance than both the fiscally disciplined Ishiba cabinet and Koizumi, who was seen as representing the status quo. However, there is considerable uncertainty about the potential scale of procyclical fiscal policy, and we will be monitoring progress with inter-party negotiations on a supplementary budget that begin this month. She is also expected to promote efforts to strengthen Japan's national security.

Cautious on BoJ's rate hikes, but cycle to continue

While Takaichi's cautious stance on BoJ's rate hikes slightly raise the bar to their October rate hike, it should not materially affect the BoJ's rate-hiking path per se. We continue to expect the next hike at the January 2026 MPM (monetary policy meeting) and one hike every six months thereafter.

What to watch: Another year of fraught fiscal debates

Given the considerable obstacles to immediately expanding the coalition, we expect the LDP as minority ruling party to hold fiscal policy discussions with opposition parties aimed at passing an FY25 supplementary budget, initial FY26 budget and tax reforms. The size of the supplementary budget and the outlook for the fiscal balance will depend on how these inter-party negotiations progress. If the LDP coalition struggles to govern effectively this would increase the risk of an early snap election.

Market implications

Takaichi's victory in the LDP leadership election came as a surprise to the fixed income market. We think fiscal policy expectations will likely weigh over superlong JGBs given (1) the expansionary fiscal stance Takaichi shares with opposition parties, (2) market positioning skewed toward flatteners, and (3) political and fiscal policy uncertainty through year-end.

Close our trade recommendation

On 20 August, we entered shorting the invoice spread for December contracts (i.e. shorting JBZ5 and receiving swaps) at -12.5bp with target at -16.0bp. While we continue to believe that perceived fiscal risks could further weigh on JGB futures and cash bonds, we are closing our trade recommendation at -13.2bp. The market has stabilized, adopting a wait-and-see stance ahead of the appointment of the next finance minister. The level is slightly above our target.

Exhibit 17: Takaichi's policy proposals and key comments

She advocates an expansionary fiscal stance and stronger efforts in national security, while remaining cautious about BoJ's rate hikes

Policy area	Main proposals
Fiscal policy/tax cuts	"Responsibly aggressive" fiscal policy, will issue deficit-financing bonds if necessary Scrap provisional gasoline/diesel taxes Consider "tax deduction with cash transfers" Supports raising "annual income barrier" (=minimum income subject to income tax) Not rule out consumption tax cut on food, but prioritizing other policies given lack of immediate implementation Expand cash transfer to local governments to support households
Monetary policy	Government responsible for fiscal and monetary policy while BoJ decides monetary policy measures Close dialogue with BoJ aimed at "demand-pull" rather than "cost-push" inflation
Industrial policy	Expand tax incentives/subsidies to protect SMEs/small business owners, encourage wage hikes/capex Aggressively invest in growth areas essential to economic security Make start-up tax cuts permanent
Energy policy	Restart nuclear power plants Quickly introduce innovative next-generation reactors/fusion reactors
Foreign policy	Comply with Japan-US agreement, continue robust debate on investments in US Enhance US-Japan relation, stronger relationships with Korea, Australia and the Philippines, expand CPTPP membership
Defense/national security	No specific defense spending targets (as % of GDP) at this point Will revise Japan's national security/defense strategy and defense buildup program Develop technology/personnel capable of responding to sophisticated cyberattacks Establish "national intelligence agency", begin work on anti-espionage law Strengthen food security, promote agricultural/food exports Develop backup for Tokyo's crisis management functions
Social security policy	Support for generation affected by 1990s-2000s job market "ice age" Support for low-income households Earlier revision of medical/nursing care fees to reflect inflation/wage hikes
Policy on foreign nationals	Stricter controls on foreign investment in Japan Strengthen centralized administrative function to respond to issues involving foreign nationals Step up response to visa overstayers, consider restrictions on land purchases
Party politics	Keen to expand coalition to include parties that share same policy views Opposes dissolving Lower House in near future Involvement in political funding issue will not affect choice of cabinet members

Source: BofA Global Research, LDP, media reports

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Front end – US I

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- Recent FF rise likely reflects shifting bargaining power from foreign banks to FHLBs

This is an excerpt of FHLB liquidity & SOFR/FF widening (see report)

Fed funds dynamics reflect shift in bargaining power

The recent rise in the FF rate signifies a shift in dynamics in the FF market. When cash was more abundant, FF bargaining power was on the side of the cash borrower, primarily foreign banks. However, after 3 years of QT, FF bargaining power now appears to be shifting to the cash lender, the Federal Home Loan Banks (FHLBs). In this note we discuss the FHLBs' role in the FF market and how we believe the recent change in the FF market fits with our long Jan SOFR/FF rec (current = -6.5bp, risk = higher SOFR).

Why are FHLBs lenders in the FF market?

FHLBs are GSEs that lend advances to member banks with the intention of supporting the housing market and community development. FHLBs also play a unique and important role in funding markets. FHLBs issue debt, largely discount notes, to finance advances, but they also hold a surplus of cash ($200b on avg since '22) in case of unexpected advance demand. FHLBs aim to earn interest on that excess cash, with a preference for flexibility in case of unexpected advance demand. FHLBs have 3 primary options for investing their cash, in order of intraday liquidity: (1) IBDAs (2) FF (3) repo (mostly tri-party). FHLBs often prefer FF over repo because of its early return feature.

Repo rates > FF => FHLBs assets shift from FF to repo

Historically, as the rate that FHLBs earn on repo rises vs FFs, FHLBs shift their investable cash from FF to tri-party. This dynamic is most clearly visible in '18-'19 when repo pressure was rising from Fed QT, followed by '20-'21 Fed QE, which led funding to soften. As the FF rate declines vs repo, so does FHLB FF holdings as a % of cash assets. At the same time, repo holdings increase.

Sept FF volume decline likely reflects FHLB repo shift

We believe a similar dynamic from '18-'19 is happening again today. Over the last year, TGCR has averaged flat to FF but the recent rise in TGCR has led the spread to widen to as much as 17bps in Sept. As TGCR has risen vs the FF rate, FF volumes have declined. The decline in FF volumes likely contributed to the eventual increase in the FF rate as FHLBs likely dropped lower rate transactions first. We cannot directly prove a shift in FHLBs repo lending today, but it fits the FF volume drop & historical behavior.

FF remains elevated despite rebound in FF volumes

FF volumes have partially reversed their recent drop but FF has remained at IORB-6bp. This likely implies enough foreign bank borrowers have accepted higher FF rates of IORB -6bps. We suspect FHLBs will continue to exercise bargaining power by shifting to repo at times and thereby keep placing upward pressure on FF.

FF likely to remain sticky high, slowly rise

The rise in FF has since been followed by a 1bp increase in the 75th and 25th percentiles, implying the FF rate is not likely to tick back down. It also implies the FF rate should keep rising. We expect to see a 1bp increase in the FF rate roughly every 2-4 weeks based on the initial rate of increase in 2018. This should lead to SOFR/FF widening as FF catches up to SOFR. In some ways, the FHLBs may be doing their part to widen SOFR/FF with their shifting repo & FF behavior.

Front end – US II

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- We revise higher our Oct bill forecast to $146b following bill auction size increases.

This is an update to Bill supply update (see report), originally published 8 Oct

Treasury surprises with higher bill auction sizes

The US Treasury has increased bill auction sizes over the last two weeks implying greater supply in October than we previously anticipated. The Treasury provided guidance at the August refunding announcement that stated bill auction sizes would increase in October. However, the increase in bill auction sizes two weeks in a row has surprised markets. In this note we discuss (1) why T-bill auction sizes are increasing (2) update our issuance forecasts, and (3) market impact.

Higher bill supply implies higher financing need in Oct

The Treasury grew bill auction sizes post debt limit resolution to bring the TGA back up to their $850b target. UST hit this target in September but has seen a decline October MTD, likely due to typical start of month outflows (social security checks, VA benefits, etc.). The impact of the government shutdown does not appear to be contributing to a notably higher Oct deficit compared to last year; in fact, the daily Treasury statement shows TGA deposits are higher while withdrawals are roughly flat vs this time last year. Treasury however may be anticipating a higher financing need for October than we had previously forecasted (for our prior bill supply forecast, see report: Back to school cheat sheet).

Bill forecasts revised higher in Oct, lower in Nov

Using revised auction sizes, we now estimate that UST net bill issuance in Oct will be closer to $146b on the month, implying ~$80b higher financing need. Maintaining UST's financing needs forecast of $494b for Q4 '24 pushes us to increase our forecasted financing need in October but reduce our expected financing need in November by equal amounts. We see upside risks to UST Q4 financing estimates. The Nov quarterly refunding announcement will likely include a discussion around the optimal WAM. We expect UST will want to move WAM lower by concentrating increases in issuance primarily towards the front-end or belly. We continue to expect UST will rely more on net new bill supply to cover additional financing needs and keep coupon sizes flat.

Exhibit 18: Bill and coupon issuance estimates by month
We forecast $158b in bills in Q4, with a higher portion of issuance now coming in October

	Financing Need	TGA EOP	TGA Change	Other sources*	Marketable Borrowing	Buybacks	Net Coupon	Net Bills	Fed Coupon Maturities	Fed Bill Maturities	Net Coupons to the Public	Net Bills to the Public	Net Supply to the Public
	1		2	3	3 = 1 +2	4	5	6	7	8	9 = 5 + 7	10 = 6 + 8	11 = 9 + 10
Oct-25	215	850	0	-32	215	19	68	146	5	0	73	146	220
Nov-25	261	850	0	-32	261	15	124	136	5	0	129	136	266
Dec-25	19	850	0	-32	19	45	143	-124	5	0	148	-124	24
Jan-26	-86	852	2		-84	16	27	-111	0	0	27	-111	-84
Feb-26	501	854	2		503	12	103	400	0	0	103	400	503
Mar-26	415	856	2		417	48	126	291	0	0	126	291	417
Apr-26	-269	859	2		-267	65	5	-272	0	0	5	-272	-267
May-26	346	861	2		348	12	118	231	0	0	118	231	348
Jun-26	135	863	2		137	48	134	3	0	0	134	3	137
Jul-26	187	865	2		189	18	38	151	0	0	38	151	189
Aug-26	158	867	2		160	15	92	68	0	0	92	68	160
Sep-26	-75	870	3		-72	48	126	-198	0	0	126	-198	-72

Source: BofA Global Research, US Treasury, Federal Reserve

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Front end – EU

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- €18bn of French bills will mature on New Year's Eve and some investors may have started to act.
- The 31Dec25 BTF may cheapen by a further c. 5-10bp and put richening pressure on GC and €str over the turn.
- The Tresor may consider adjusting their issuance if year-end pressures rise sufficiently.

This is an excerpt from European Rates Watch, 8 October 2025 (see report)

2025 year-end turn in EUR #1: finding a home for €18bn

When the 31Dec25 BTF matures, it will leave €18bn of cash looking for a home on a day when 1) liquidity is likely to be seasonally low, and 2) banks are likely to manage their exposures on this key reporting date (it is also a MRR reporting date for euro banks).

The 7Jan26 BTF, the next French bill to mature after the 31Dec25 BTF, has richened 5bp vs €str over the past week (Exhibit 19). This suggests some investors may have started to manage their year-end positions to avoid being left with cash that may be difficult to deploy. But there is currently only €3bn of the 7Jan26 BTF outstanding. Investors looking to rotate out of the 31Dec25 BTF may cause 1) BTFs with longer maturities, e.g. the 14Jan26 BTF and 2) other comparable euro bills maturing in early 2026, to richen.

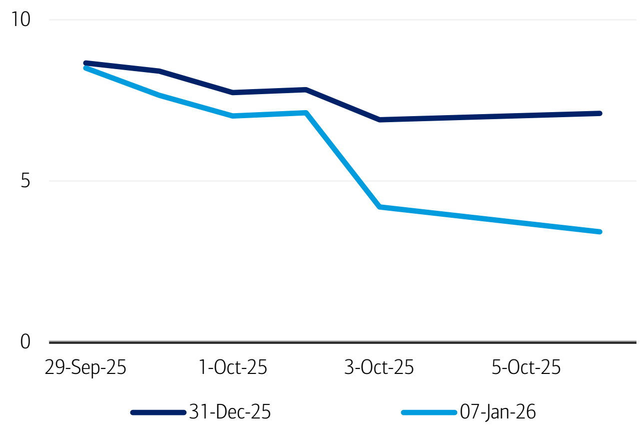
Dealers may see their holdings of the 31Dec25 BTF increase as more investors potentially shift out of this bill. The 31Dec25 BTF is already trading cheap on the curve (Exhibit 20), but we believe it could cheapen by as much as a further c. 5-10bp vs €str for dealers to be compensated for potentially having to hold the extra cash over the key reporting date and parking the cash at the Eurosystem.

Some of the 31Dec25 BTF may be held by non-banks or banks with no access to the Eurosystem when the bill matures. One potential home for the cash from the 31Dec25 maturity may be repo, which would put richening pressure on GC. But investors who are not set up in repo may need to find alternatives, such as placing the cash overnight at banks and potentially receiving €str. This may add richening pressure on €str over the year-end turn as banks charge for balance sheet. As both GC and €str may be impacted, the marginal net effect of the 31Dec25 BTF on the GC vs €str spread is ambiguous.

The Tresor may consider alleviating these issues by: 1) issuing a new BTF on 31Dec25 to provide an asset for investors holding the 31Dec25 BTF to roll into, 2) raising the 7Jan26 BTF size to reduce potential euro bill curve distortions, or 3) buying back 31Dec25 BTF.

We believe euro repo flows only covering the year-end turn have yet to come in size. As such, visibility over euro year-end repo pressures remains low. Current market pricing implies Germany GC and France GC at c. 0bp and c. 25-50bp vs €str over the year-end turn. This would suggest very limited richening pressure when compared with recent year-end turns (Exhibit 21). We believe the Tresor may not feel urgency to act until it becomes clearer that richening pressures over the upcoming year-end turn may be disproportionately larger than before due to the 31Dec25 BTF.

Exhibit 19: 31Dec25 and 7Jan26 BTF vs €str, bp
The 7 Jan26 BTF has richened 5bp over the past week



Source: BofA Global Research

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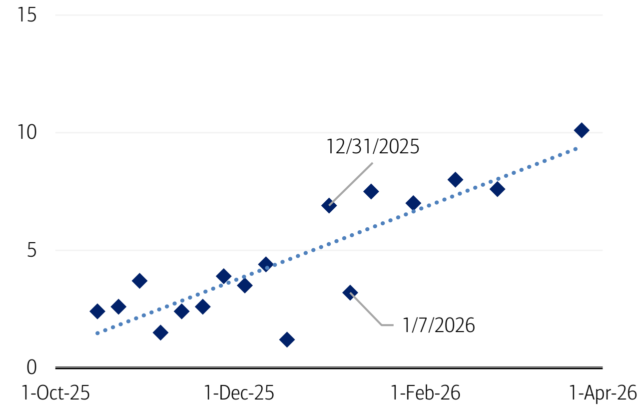
Exhibit 20: BTF curve vs €str, bp
The 31Dec25 is cheap vs the curve, while the 7Jan26 is rich



Source: BofA Global Research

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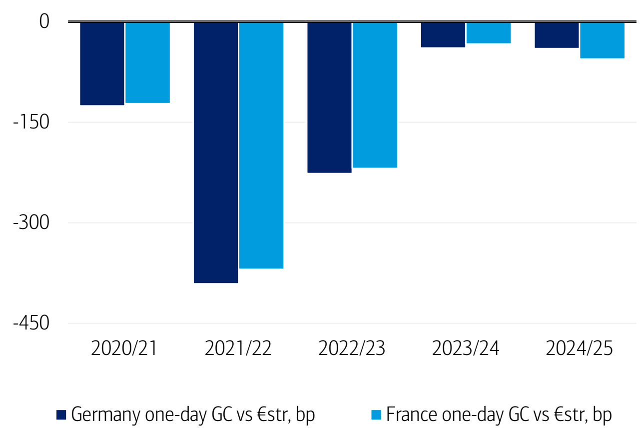
Exhibit 21: Germany and France GC vs €str over year-end turn, bp
GC tends to trade rich vs €str over the turn



Source: BofA Global Research, CME Group

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Spreads – EU

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- We estimate different types of foreign holdings of French government bonds, and discuss risks of outflow on further downgrades.

Leading up to the resignation of Lecornu, markets seemed to show modest concerns for France, as futures positioning and repo levels indicated limited short positioning. EPFR data also showed significant inflows to France-mandated sovereign funds over the past month. However, as political uncertainty resurfaced and Moody's and S&P's rating reviews are approaching, we expect the focus on potential re-balancing of the investor base to intensify. We take a close look at the non-French (foreign) holders. As no official data is available, we make use of IMF estimates.

Reserve managers–small share under strict rating constraint

Based on a reserve manager survey done by the World bank in 2023, credit ratings remain the most common methodology when assessing credit risk (used by 94% or respondents)[2], with alternative models so far being mostly complementary. It details the breakdown of minimum credit ratings the reserve managers were constrained by (Exhibit 23). For government bonds, 14% reported to have a AA+/AA/AA- min rating constraint.

Exhibit 22: IMF government debt holding breakdown estimates (Q4 2024)

Government debt is equal to Maastricht debt. As the large majority is outstanding bonds, we apply the same holding % to the current stock of OATs when discussing nominal values. Foreign investors = non domestic.

	Foreign banks	Foreign non-banks	Foreign official	Domestic banks	Domestic non-banks	ECB
GER	3.4%	17.2%	27.4%	17.9%	10.5%	23.6%
FRA	7.0%	26.2%	18.8%	16.0%	13.7%	18.3%
SPA	10.2%	21.7%	9.9%	19.5%	15.1%	23.7%
ITA	6.0%	19.5%	5.6%	20.3%	26.9%	21.6%

Source: IMF, Bloomberg, BofA Global Research

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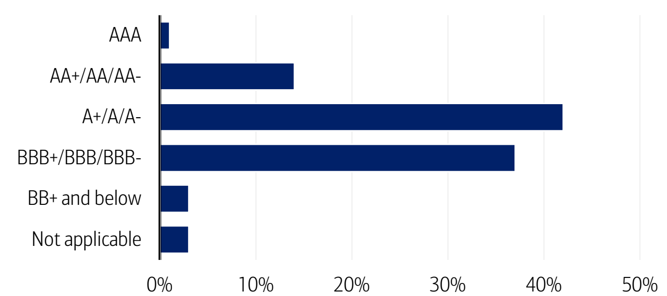
Exhibit 23: Reserve managers' minimum rating standard for gov. bonds

AA is 14%, and the largest minimum rating standard is A at 42%



Source: World bank, BofA Global Research

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Using the IMF estimates for the breakdown of French general govt debt holders in Q4 and applying the shares to the current OAT stock, we get to an estimate for foreign official holdings of OATs of c.€500bn. Assuming these are spread equally among reserve managers, downgrades to A could result in a €70bn reduction in foreign official holdings. In addition, some reserve managers with min rating standards below AA could still have to reduce their exposure if they are operating with restrictive internal credit limits.

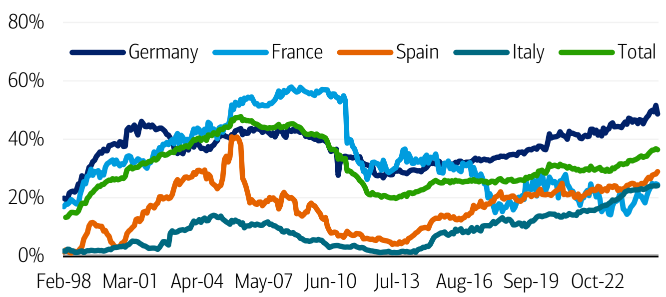
However, there are also several considerations that may limit the size and timing of outflows: (1) a breach in credit rating thresholds does not automatically result in instant selling for the majority of reserve managers. It can instead be a gradual process (no reinvestment of maturing bonds for eg.). (2) not all reserve managers may treat credit ratings similarly, i.e. some may use the most conservative rating, while others may use less strict approaches, such as averages or 2/3 majority rating. (3) In the case of sovereign debt, several reserve managers have noted that they are able to deviate from their credit rating limitations. (4) Lastly, structural tail-winds such as de-dollarisation, and improved attractiveness on an outright yield basis versus short-dated USTs if the Fed cuts policy rates, can support demand.

2 https://openknowledge.worldbank.org/entities/publication/3e23f0dd-7849-4a55-8ce7-2a104bef2c68

Foreign banks – Euro Area banks can remain large buyers

IMF estimates indicate only 7% of holdings are represented by foreign banks. Within those, non-French Euro Area (EA) banks are included and may account for a large share. Unlike non-EA banks, those would still assign a 0% risk-weight to French govt debt independently from ratings. Due to attractive price levels vs swaps, and falling HQLA holdings from ECB's QT, Euro Area banks have been increasingly buying EGBs, and diversifying their holdings across countries (Exhibit 24). Thus, OATs can continue to benefit from not only domestic but also broader Euro Area bank demand, with the potential systematic selling pressures from downgrades being limited to non-EA banks.

Exhibit 24: EA bank holdings of non-domestic EGBs/total assets,
EA banks are diversifying EGB holdings, but the trend is less apparent in FRA



Source: Haver, ECB, BofA Global Research

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Exhibit 25: Over/under allocation by active Europe (ex UK) mandated FI funds tracked by EPFR, relative to share of outstanding bonds in the EA
Values should be cautiously approached as active EPFR funds only cover $38bn AUM, and should only be seen as an indication. Allocations to non-EA issuers were removed.

Issuer	Over/under allocation	Issuer	Over/under allocation
Spain	3.00%	Italy	-3.26%
Netherlands	1.69%	France	-3.03%
Finland	1.35%	Germany	-0.64%
Austria	0.93%	Portugal	-0.22%
Ireland	0.19%	Greece	-0.11%
Belgium	0.11%		

Source: EPFR, BofA Global Research

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Foreign non-banks

In contrast to foreign banks, we see greater concern regarding foreign non-banks, including asset managers, hedge funds, insurance, and pension funds, etc., as this is arguably the investor base most quick to react and, by IMF estimates, hold about 26% of French general govt debt, estimated to ~€700bn in bonds. Due to the broad range of investors, and limited data on holdings, conclusions are challenging to draw. However, compared to other foreign investors, credit ratings on aggregate seem less important, instead risk-reward ratios assumably play a larger role in investment decisions.

Amongst non-French pension & insurance funds, Dutch pension funds are arguably among the most relevant. Their long end demand for government bonds may decrease as they transition from defined benefit to defined contribution. However, we caution that selling of government bonds by Dutch PFs may not be as imminent as their unwind of (ultra) long-end received swaps position. Their portfolio of bonds (albeit including corp bonds) has a much lower duration than that of their swaps positions, and those contemplating a significant shift in their asset allocations may do so over a longer time. Still, it is worth noting that total Dutch pension fund holdings of French govt bonds amounted to €58bn at the end of 1Q25, according to EIOPA data, versus German and Dutch govt bond holdings of €87bn and €53bn respectively.

For European fixed income investment funds, credit ratings are used by a majority. However, it does not necessarily mean it's a key determinant of investment allocations. For passive allocations, we see the primary allocation determinant being outstanding volumes. For active allocators, the primary concern is instead effective risk-reward allocations, where ratings constraints are modest. Data provided by EPFR show active funds with a mandate to invest in Europe (ex-UK), indicate that investment funds are already underweight France (Exhibit 25), although this may not be fully representative.

Lastly, there are funds with AAA-AA investment mandates. Our understanding is that the majority does not base inclusion only on the most conservative rating (e.g. iShares Global AAA-AA Govt Bond UCITS ETF and ICE BofA Indices both use rating averages). If Moody's and/or S&P choose to downgrade France, the divestment may pick-up. However, it is hard to estimate the total AUMs that follow these indices at the moment, let alone how the AUMs may evolve if France is downgraded and drops from those.

Spreads – AU

Oliver Levingston
Merrill Lynch (Australia)

- Swap spreads have moved wider, but our fair value framework suggests the moves have not been excessive.
- Rising gold prices could boost Australia's fiscal position, especially if demand for precious metals spills over into demand for other bulk commodities.
- We continue to see spreads moving positive as offshore demand for AUD debt supports wider spreads.

Improvement in AU budget outlook

We have recommended paying 3y swap EFP (bond futures vs swap) because of offshore demand for AUD debt and recent budget figures suggest spreads will continue to move wider. Last week's budget outcome showed a $10bn deficit for fiscal year 2025/26, $17bn lower than forecasts in March. In our view, markets have underpriced robust demand for AUD debt from domestic and offshore investors, but the latest budget outcome also suggests bond supply may be lower than the market has anticipated.

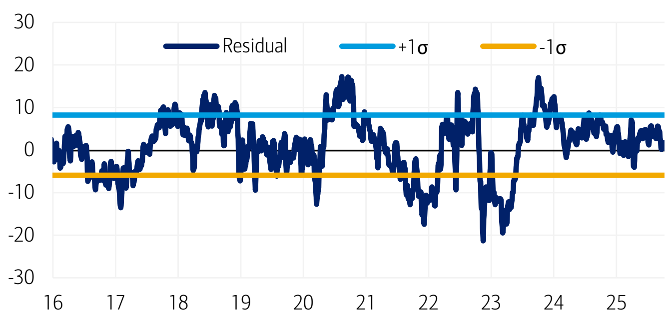
All that glitters…

Australian Treasury forecasts assume a sharp fall in the prices of major commodities like iron ore. Gold is now Australia's second most valuable commodity export and if gold maintains current levels or rises further, company tax revenues from gold miners could reduce or even eliminate the fiscal deficit.

Fundamentals suggest spread moves are not stretched

A relatively quick widening in spreads from -10bp to -5bp over the past month has prompted investors to ask us if we are due a retracement. Typically, when the residual on our swap EFP fair value framework is 1 standard deviation higher (lower), spreads are too wide (tight) vs fair value and the spread mean reverts. Our framework does not suggest the recent spread move is overdone. International spreads are an important driver of fair value but we also see improvement in the AU budget position and rising offshore demand for AUD paper as bullish for spreads (Exhibit 26, Exhibit 27).

Exhibit 26: Residual, swap EFP fair value vs price (higher = wider vs FV)
Swap spreads do not appear excessively wide or tight



Source: BofA Global Research, Bloomberg

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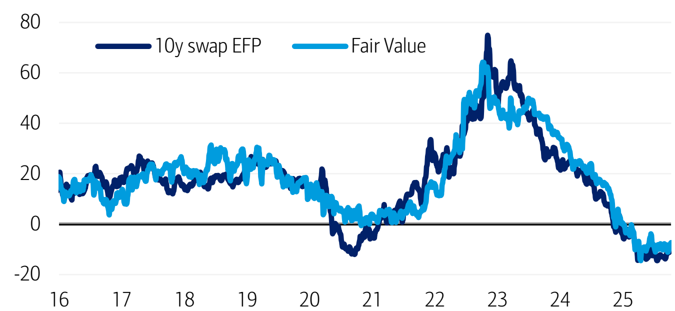
Exhibit 27: 10y swap EFP vs fair value estimates
We see 10y swap EFP as likely to move wider



Source: BofA Global Research, Bloomberg

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We are bullish on spreads across the curve but generally prefer to buy 3y bond futures (rather than 10 bond futures) vs swap because the RBA owns 42% of the bonds in the 3y bond futures basket. The RBA will continue owning a high percentage of bonds in the 3y bond futures basket for the next few years, which should cap spread tightening. We entered the trade at -9.5bp with a target of 10bp and a stop of -19.5bp. Spreads have widened to -5bps and we reiterate our recommendation to pay 3y swap EFP.

Inflation – EU

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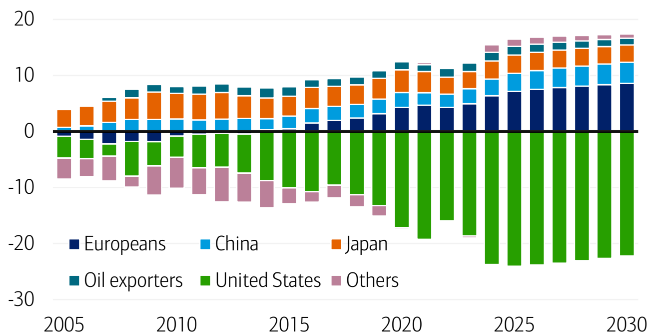
- Next week's IMF WEO will update its assessment of global imbalances, reminding us of their link to real yields. We think its time to switch 30y TIPS into 30y BTPei.

This is an excerpt from the 8 October Liquid Insight (see report).

Global imbalances and real yield differences

Next Tuesday, the IMF will publish its semi-annual World Economic Outlook (WEO) and we are keen to read its assessment of global imbalances. April's update showed materially larger imbalances than the IMF had reported in October 2024 (see our report: 'When exorbitant privilege meets exorbitant need', Liquid Insight, 14 May 2025).

Exhibit 28: Global imbalances – many creditors, one debtor
Country/group IIP, %/Global GDP, according to the IMF in April 2025



Source: BofA Global Research, IMF

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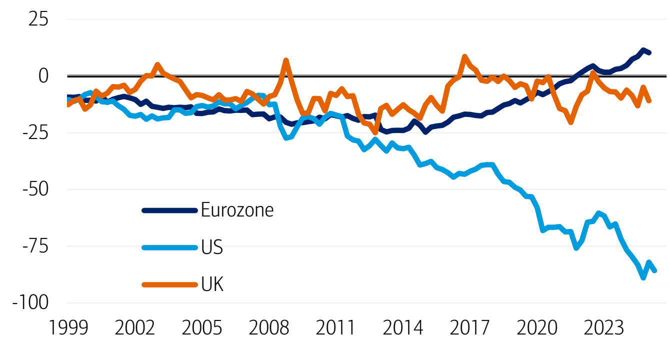
Exhibit 29: Net external assets – EZ up, US down, UK sideways
UK, US, and Eurozone net IIP/GDP ratios, %



Source: : BofA Global Research, LSEG Data & Analytics

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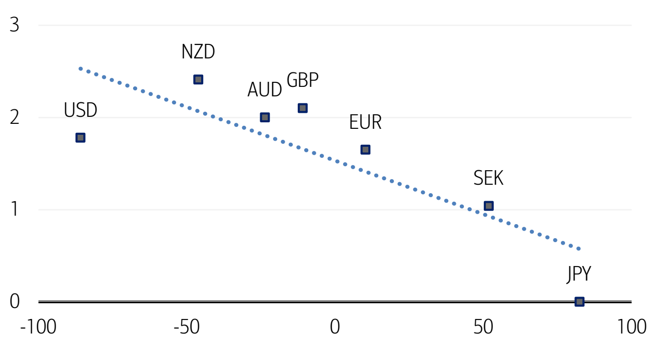
Why do we think this matters? The premise is that "home bias" means that countries that are heavily dependent on foreign capital need to offer higher prospective real returns on assets to attract and retain it. Exhibit 30 shows this explicitly for developed economies that have linker markets – there is a clear, if loose, inverse relationship between countries' International Investment Positions (IIPs) and their real yields.

Exhibit 30: 10y real yields (y-axis) vs net IIP/GDP ratios (x-axis), %
EUR represented by France; 10y UKTi "wedge-adjusted" to 2030 reform date.



Source: : BofA Global Research, LSEG Data & Analytics

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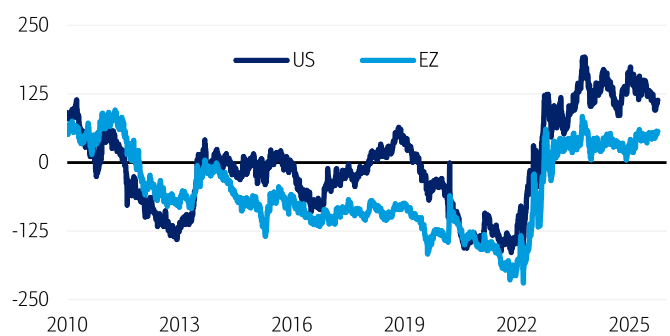
Exhibit 31: Gap narrows between 10y "real SOFR" and "real €str" rates
Real rates taken as difference between nominal & inflation swap rates (bps)



Source: BofA Global Research, Bloomberg

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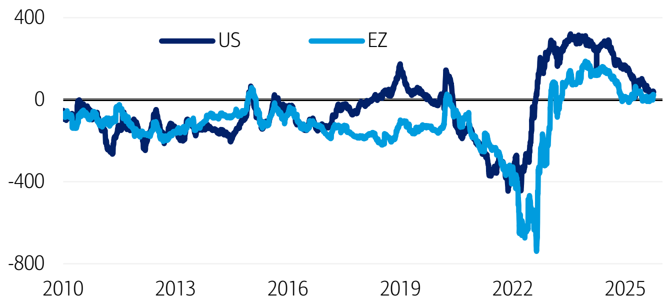
We think it's time for a US into Euro real yield trade

US spot real rates have been falling relative to spot Euro real rates recently (Exhibit 31), which seems at odds with the value signal from IIPs in Exhibit 30.

Exhibit 32: 1y "real SOFR" falls sharply, converging to "real €str"

Real rates are nominal swap rates less inflation swap rates (bps)



Source: BofA Global Research, Bloomberg

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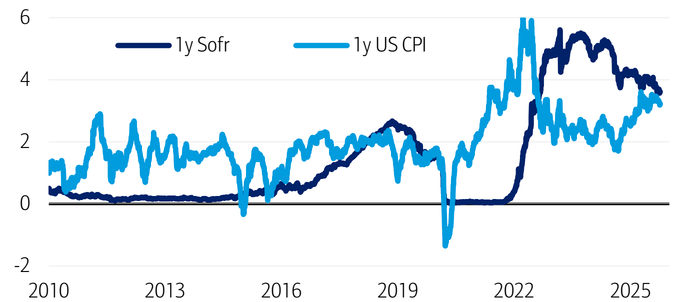
Exhibit 33: 1y real SOFR vs 1y inflation swap rate increase

1y SOFR has continued to soften despite a rising 1y inflation swap rate (bps)



Source: BofA Global Research, Bloomberg

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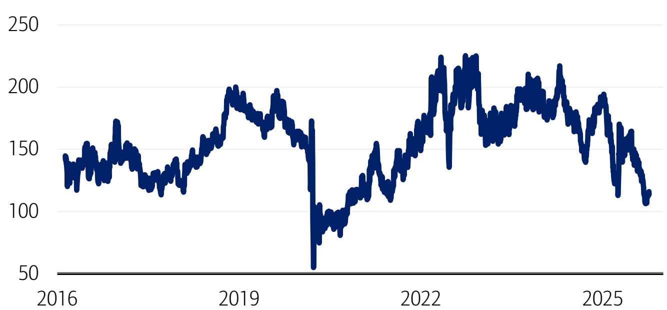
What appears to have dominated the narrowing in term real rates has been developments at the very front of the curve. 1y "real SOFR" has fallen steeply, almost converging with 1y "real €str" (Exhibit 32), with the fall comprising both falling SOFR rates and rising front-end inflation expectations (Exhibit 33). The fall in 1y SOFR in the face of firming US inflation expectations probably reflects the perception that the Fed is shifting to emphasize growth over inflation. Meanwhile in the Eurozone, we have almost the opposite perception brewing, with many coming to regard the ECB as relaxed about a forecast inflation target undershoot. We believe this headwind to Euro real rate outperformance versus US further along the curve is now more-or-less played out.

Choosing a Euro token for a cross-market real rate long

We prefer to look at US-Euro real rate wideners further along the curve to minimize the impact of any continuation of recent front end real rate convergence, either because the Fed cuts aggressively despite firm inflation, or because inflation expectations drop further in the Eurozone while the ECB resists cutting further. We also expect very light long-end linker supply in the Eurozone for the foreseeable future.

Exhibit 34: TIPS-Bundei 2046 real yield spread low within its range

TII 1% 2/2046 less DBRi 0.1% 4/2046 (bps)



Source: BofA Global Research, Bloomberg

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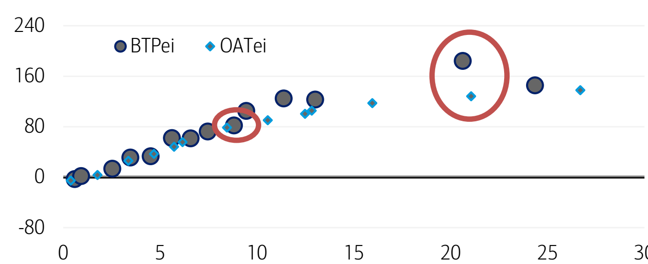
Exhibit 35: OATei and BTPei z-spreads versus duration (bps)

10y duration France and Italy issues (circled) have very similar z-spreads, but the difference between the 20y duration issues (OATei 2047 and BTPei 2056, also circled) is large at 56bp.



Source: BofA Global Research, Bloomberg

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It is noteworthy that the spread between the 2046 TIPS and DBRi issues is narrow within the long-term range (Exhibit 34), and this is worth considering for such a switch. However, in the above-linked Liquid Insight from Wednesday, **we recommended switching the benchmark 30y TIPS issue into the 30y BTPei to pick-up 12bp, setting a target of -20bp and a stop-loss at +28bp (currently +10bp),** seeing BTPei 56s as particularly cheap (Exhibit 35). Risk to the trade is contagion if France spreads widen on political uncertainty.

Technicals

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- In the next few trading sessions, we may see the 50d SMA cross below the 200d SMA while the 200d SMA is rising on the daily chart of US 30Y yield (Exhibit 36).
- Of 24 signals since 1977, yield was lower 15-45 trading days later w/the strongest down ratio 35-40 trading days later, which is late Nov-early Dec (Exhibit 37).

On watch for US 30Y yield downtrend signal

A popular moving average cross may soon signal lower yield in Q4

Exhibit 36: US 30Y Yield – Daily chart with triangle top and now the 50d SMA about to cross below the 200d SMA. Both favor a lower bias in Q4.
US 30Y yield daily candle chart, 50d SMA, 200d SMA, RSI

Source: BofA Global Research, Bloomberg

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Exhibit 37: US 30Y yield trend after the 50d SMA crossed below the 200d SMA and the 200d SMA had a positive slope (Like it does now)
In the past US 30Y yield was lower 30-45 trading days later 67-71% of the time. And lower 63% of the time 15-25 trading days later.

Ticker: USGG30YR			Start Year: 1977		# Signals: 24			# < 80 days: 0					
days after	5 days	10 days	15 days	20 days	25 days	30 days	35 days	40 days	45 days	50 days	60 days	70 days	80 days
% Down Ratio	54%	58%	63%	63%	63%	67%	71%	71%	67%	58%	50%	54%	63%
Up	11	10	9	9	9	8	7	7	8	10	12	11	9
Down	13	14	15	15	15	16	17	17	16	14	12	13	15
Average	0.63	-0.98	-3.68	-2.04	-4.38	-5.96	-6.85	-10.84	-3.28	-1.38	2.92	-1.07	-2.58
Median	-0.57	-1.80	-3.77	-5.93	-4.68	-7.58	-13.51	-17.38	-14.93	-8.13	0.19	-3.22	-10.43
Min	-18.60	-42.00	-42.00	-72.30	-73.80	-65.90	-65.00	-100.50	-77.50	-91.12	-98.08	-137.93	-114.60
Max	20.76	50.00	57.00	70.00	69.00	91.00	120.00	152.00	167.00	169.00	153.00	204.00	189.00

Source: BofA Global Research, Bloomberg

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Rates Alpha trade recommendations

Exhibit 38: Global Rates Trade Book - open trades

Open trades

	Open Trades	Entry Date	Entry	Target	Stop	Latest Level	Trade rationale	Risk
Europe	Sell 2055 TIPS, buy 2056 BTPei	8-Oct-25	12	-20	28	9	Net external asset trends	Contagion from adverse France moves
	Receive Mar26 ECB €str	3-Oct-25	1.86	1.65	1.95	1.84	Weak outlook to prompt more cuts	Upside data surprises
	Receive 10y5y "real ESTR" rate	5-Sep-25	107	70	125	100	Lower neutral	Global bear market in rates
	Sell OATei 47, buy BTPei 56 on z-spread	5-Sep-25	69	40	85	60	Extreme RV anomaly	Reduced France uncertainty
	Receive 10y5y €str	2-Sep-25	3.4%	3%	3.7%	3.29%	Downside in growth, lower premia	Paying by banks, upside data surprises
	Long 10y Bunds	2-Sep-25	2.8%	2.4%	3.05%	2.77%	Downside in growth, pressure on risk assets	Upside data surprises
	Pay Jun26 IMM 1y Euribor-€str basis	7-Aug-25	23.7	30	19.5	24	Reserve demand-supply imbalance to worsen	Low reserve demand, structural operations
	Short 5y German swap spreads	11-Jul-25	6.5	0	12	6.9	Seasonality, supply concerns, receiving in swaps	Risk-off move, program paying in 5y swaps
	6m 2s10s floor ladder	7-Jul-25	63bp	51.4bp	70bp	54bp	Flattening bias in 2s10s.	2s10s flattening beyond the downside b/e
	Short 6m2y rec ladder	7-Jul-25	0bp	25bp	-14bp	-1bp	Wide range of outcomes.	Rally to 1.5-1.9%
	US-Euro 2y3y inflation widener	1-Jul-25	38	70	20	56	Historically narrow, roll-down	US recession
	2y3y/5y5y Euro inflation steepener	2-May-25	20.0	35.0	10.0	21	Swift fall in inflation	Stalling disinflation
	Long 30y Bunds vs Netherlands	24-Nov-24	14.5	25	8	16	Fade the cheapness of GE long-end	Change in German constitution
	5y1y ATM-25/-100bp rec spread	8-Feb-24	25bp	60bp	0	17bp	Lower ECB terminal rate, without negative carry	Better than expected EUR data
UK	1s2s RPI flattener	2-Oct-25	6.5	-25.0	25.0	0.5	RPI forecast, RV anomaly	Falling energy prices
	Pay 10y Sonia vs long 30y Gilt	19-Sep-25	139bp	120bp	155bp	135bp	Gilt supply migrating to shorter-WAM	Sharp curve steepening from fiscal concerns
	Receive December MPC-dated Sonia	5-Sep-25	3.88	3.72	3.96	3.82	Not enough priced in at the front-end	Sonia drift higher
	Long UKTi 2027s on z-spread	5-Sep-25	15	0	23	15	Expect banks bid on UKTi26s maturity	Supply driven Gilt cheapening
	UKTi 2058/68 real curve flattener	1-Jul-25	-12.7	-22	-7	-17	RV cheapness of '68s, convexity	Ultra-long supply poorly digested
	Rec fwd UKTi real rates/pay fwd TIPS real rates	14-May-25	22	-40	50	11	DMO Shortening its issuance	Poorly digested long-dated supply in Gilts
	Long 30y Gilt on ASW	2-May-25	91	75	100	92	Expect BoE to at some point signal slower QT	UK fiscal worries
	UKTi 2037/39 real curve flattener	24-Oct-24	17	9	25	18	Attractive level; low coupon value	Supply related dislocation
	UKTi '32/36/47 barbell	05-Sep-24	14.8	5.0	20.0	130	Expect forward flattening	Illiquid conditions
	Sell UKTI 2036 v UKT 2042 on ASW	26-Jul-24	-21	-8	-28	-14	Historical extreme spread	Poor nominal auction demand
US	Paid April '26 FOMC OIS	19-Sep-25	3.31%	3.65%	3.05%	3.45%	Cautious Fed & April underpriced vs end of '26	More dovish Fed with faster cutting cycle
	2s10s flattener	19-Sep-25	55bp	30bp	70bp	55bp	Less aggressive Fed cuts & positive carry	More dovish Fed with faster cutting cycle
	Long Jan SOFR/FF	15-Sep-25	-6.5bp	-2bp	-11bp	-6.5bp	Fed likely to step in on further funding pressure, end QT	Fed more tolerant of SOFR above IORB and FF
	SOFR H6H7 flattener	11-Sep-25	-53bp	-75bp	-35bp	-41bp	Cautious Fed near-term-> more cuts post Powell	Frontloading of Fed cuts & steeper SOFR curve
	1y10y inflation swap steepener	3-Sep-25	-83bp	-40bp	-110bp	-65bp	More inflation risk premium longer term	Commodity price shock & higher tariff impact
	Sell 1y1y vs 1y10y vol	14-Aug-25	+4bp Vega (v)	15bp Vega (v)	-5bp Vega (v)	2bp	Underperformance of left vs right side vol on soft landing scenarios	Higher uncertainty around the Fed policy near term
	Long 10y BE	23-June-25	234bp	255bp	220bp	236bp	Fed independence threat hedge	Risk off flow that sees oil decline
	6m5y payer ladder	23-May-25	0bp	27bp	-10bp	1bp	Scenarios of hawkish repricing of policy trough	Scenarios of Fed hikes
	18m1y vs 6m1y rec	1-May-25	0bp	30bp	-15bp	77bp	< frontloaded cuts, > backloaded cuts	>frontloaded cuts with < medium term
	6m fwd 2s10s floor ladder	1-May-25	46bp	17bp	-10bp	30bp	Underperformance of curve vs fwds	Flattening beyond the c.20bp BE
	1y1y receiver 1x1.5	12-Dec-24	9bp	60bp	-15bp	0bp	Hedging slowdown scenarios	Aggressive hard landing scenarios
	1y fwd 5s30s bear steepener	24-Nov-24	0bp	30bp	-15bp	26bp	Term premium build & reacceleration scenarios	Bear flattening on hawkish Fed
	1y10y payer spd vs 3m10y payer	24-Nov-24	0bp	30bp	-15bp	-15bp	Higher recalibration/reacceleration likelihoods	Frontloaded sell that fades medium term
	1y1y straddles vs strangles	24-Nov-24	+0.31%	20bp v	-10bp v	0.33%	Long vol of vol	Lower vol of vol
	Long 5y30y vol vs 2y30y vol	24-Nov-24	+5.5bp v	15bp v	-10bp v	14bp	Vega supported bearish tail scenarios	Outperformance of intermediate vs long vega
	3y1y rtr spd a/-50bp	6-Nov-23	23bp	50bp	-23bp	10bp	Soft landing scenario	Capped to premium
APAC	Pay 6m1y, receive 1y5y swaps	10-Oct-25	62bp	38bp	74bp	-8bp	Carry-rich flattener for an extended RBA pause	Weak AU Sept. jobs report
	Long 6m5y payer spd USD vs KRW	23-Sep-25	0bp	25bp	-10bp	-8bp	Underperformance of USD vs KRW rates	Underperformance of KRW vs USD rates
	Long 6m20y payers JPY vs AUD	21-Aug-25	0bp	20bp	-10bp	0bp	Underperformance of JPY vs AUD rates	Underperformance of AUD vs JPY rates
	Short 20y JGBs vs AUD semis	18-Aug-25	289bp	200bp	330bp	290bp	Fiscal risks underpriced into autumn Diet	JGBs could rally if risk sentiment deteriorates.
	US 10y invoice spreads vs AU	30-May-25	40bp	60bp	25bp	37bp	Fiscal divergence	US reg reform, AU budget update
	Pay 3y swap EFP (q/q)	28-May-25	-9.5bp	10bp	-19.5bp	-6.3bp	Robust AU bond demand profile mispriced	Global spread tightening
	Buy TCV 5.5% Sep 2039 vs 10y IRS	15-May-25	133bp	100bp	148bp	132bp	Fiscal convergence between AU and Victoria	Wider spreads likely in a risk-off event
	JP 1y2y payers spd vs 1y10y payers	24-Nov-24	0bp	40bp	-15bp	-2bp	Bear flattening of the curve	Lagging BoJ & curve bear steepening
	JP 1y5y payer ladders	24-Nov-24	0bp	28bp	-10bp	12bp	Repricing of policy trough	Underperformance vs. downside b/e
	KR 1y fwd 2s10s bull steepeners	24-Nov-24	0bp	25bp	-10bp	16bp	Dovish BoK and bull steepening	Hawkish shift for BoK
	KR 1y5y receiver spd	24-Nov-24	-16bp	34bp	-15bp	2bp	Repricing of policy trough lower	Capped to upfront premium

Exhibit 39: Global Rates Trade Book - closed trades
Closed trades

	Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
Europe	US 3m10y payer spd vs EUR payers	7-Jul-25	0bp	25bp	-15bp	-8bp	-7bp
	Receive Oct ECB €str	18-Jul-25	1.765	1.565	1.925	26-Sep-25	1.929
	Receiving 6m1y EUR vs CHF	14-Mar-25	176bp	130bp	200bp	18-Sep-25	196bp
	6m 2s5s30s rec fly	7-Jul-25	0	150k	-80k	05-Sep-25	150k
	Receive 5y5y "real ESTR" rate	14-May-25	74	25	100	05-Sep-25	83
	OATei 2038/53 real curve flattener	13-June-25	20	0	30	20-Aug-25	30
	6m5y 1x1.5 rec	5-Feb-25	0bp	14bp	-10bp	4-Aug-25	0
	Pay 1y1y Euribor-€str basis	24-Nov-24	21.5	30	17	07-Aufg-25	24
	Long 10y Spain vs Germany & Italy	9-May-25	25	15	31	04-Aug-25	22
	Short 5y EU vs NL	19-Jun-25	21.8	30	17	31-Jul25	16
	Long 2y IT vs FR	20-Jun-25	7	-10	16	24-Jul-25	5.8
	Long EU 30y vs Netherlands	28-Mar-25	72	60	80	18-Jul-25	60
	Short 1y1y vs 1y10y vol	24-Nov-24	6.5bp	20bp	-10bp	11-Jul-25	24bp
	Receive BTPei 2033-39 fwd yield	1-Apr-25	358	300	400	01-Jul-25	320
	BTPei 2039 iota narrower	7-Mar-25	25.4	17	30	03-Jun-25	19.9
	US-Euro 2y3y inflation widener	7-Mar-25	28bp	50bp	15bp	30-May-25	50bp
	Long 15y OAT May-42	21-Mar-25	3.84	3.5	4.05	27-May-25	3.67
	Long 5y Greece vs Portugal	19-Nov-23	42	0	65	2-May-25	12
	Receive Dec ECB €str	2-Jan-25	1.77	1.3	2.18	17-Apr-25	1.47
	EUR 3m2y payer fly	16-Jan-25	12.4	35	2	16-Apr-25	0
	Pay 10y real Sofr, rec. 10y real €str	24-Nov-24	-112	-180	-80	1-Apr-25	-75
	Pay 1y1y CHF OIS	11-Dec-24	0.06%	0.35%	-0.10%	07-Mar-25	0.29%
	6m fwd 2s10s bull flattener OTM	23-Oct-24	0	900K	-500K	07-Mar-25	11K
	BTPei 2039 breakeven long	29-Jan-25	189	220	170	07-Mar-25	198
	US 9m30y payer spd vs EUR payer	5-Feb-25	0bp	30bp	-15bp	07-Mar-25	-15bp
	Receive 5y5y "real ESTR" rate	02-Jul-24	28	-20	60	07-Mar-25	60
	Pay Mar ECB €str	23-Jan-25	2.44	2.55	2.37	07-Mar-25	2.42
	BTPei'29/'33/'39 CDN barbell	18-Oct-24	31.6	15.0	40.0	27-Feb-25	25.3
	OATei '36'/'40/'43 fly	25-Sep-24	5.5	0.0	9.0	27-Feb-25	2.6
	Sell OATei 43 vs 53 on z-spread	03-Sep-24	29	15	37	27-Feb-25	28
	3m2y payer fly	23-Oct-24	14.7bp	40bp	3bp	16-Jan-25	16.1bp
	Receive 2y1y €str	2-Dec-24	1.74	1.4	1.95	2-Jan-25	2.01
	Long 30y Bunds	03-Sep-24	2.58%	2%	2.83%	12-Dec-24	2.44%
	Received 2y1y €str	03-Sep-24	2.12%	1.7%	2.4%	2-Dec-24	1.7%
	EUR 1y fwd 2s10s OTM floor, funded US floor	19-Nov-23	-15bp	25bp	-25bp	19-Nov-24	15bp
	Receive 3y1y €str vs CAD OIS	03-Sep-24	39	80	15	21-Nov-24	86
	Long Schatz vs Bobl Euribor spreads	31-Aug-23	3	15	-8	14-Nov-24	8
	3m fwd 10s30s bull flattener	23-Oct-24	0	900K	-500K	31-Oct-24	770K
	Pay belly of 5s10s30s	24-Jun-24	23	50	10	31-Oct-24	30
	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
UK	Rec Nov MPC-dated Sonia	13-Jun-25	3.78%	3.50%	3.95%	01-Aug-25	3.78%
	1s2s RPI flattener	23-May-25	7	-30	25	01-Aug-25	-16
	Long UKT 0 1/8% 2028 vs. UKT 4 3/8% 2028 on ASW	24-Jan-25	-29	-40	-24	08-Jul-25	-24
	Short Sonia 3s5s7s (pay 5s)	05-Sep-24	-12	10	-21	26-Jun-25	-5.3
	Receive Nov MPC-dated Sonia	11-Apr-25	3.69	3.45	3.81	15-May-25	3.81
	Receive UKTi 2036-2042 fwd real yield	28-Feb-25	267	200	300	8-Apr-25	305
	Long G vs. WN invoice spreads	28-Feb-25	13.9	30	5	8-Apr-25	30
	Short 5y RPI	29-Jan-25	396	350	450	1-Apr-25	376
	Pay 5y real Sonia, receive 5y real €str	21-Aug-24	43	-40	90	1-Apr-25	-4
	UKTi 2052/68 yield flattener	20-Feb-24	-13	-35	0	1-Apr-25	-27
	Receive Aug MPC-dated Sonia	14-Mar-25	4.07	3.95	4.13	24-Mar-25	4.13
	Pay March MPC Sonia	7-Feb-25	4.397%	4.468%	4.357%	20-Feb-25	4.45
	1y fwd 2s10s Sonia steepener	8-Nov-24	-1	25	-15	31-Jan-25	-15
	Pay 5y real Sonia	12-Jul-24	1	60	-30	29-Jan-25	15
	Sell UKT 4.5% 2028 vs. UKT 0.5% 2029 (on z-spd)	05-Sep-24	-8	-20	4	24-Jan-24	-9.2
	Buy UKT 4 3/8 2054 vs. T 4 5/8 2054 on ASW	12-Jul-24	1.0	-15.0	10.0	31-Oct-24	2.7
	Buy UKT 5/8% 2050 vs. 4 5/8% 2034 on ASW	07-Jun-24	33.5	13.0	45.0	31-Oct-24	23.8
	6m10y payer spreads	7-Apr-25	8.5bp	25bp	-8.5	07-Oct-25	-7bp
	Short 30y spread	1-Aug-25	-88bp	-105bp	-70bp	03-Oct-25	-83bp
	Received 5y OIS	8-Aug-25	3.44%	2.8%	3.8%	19-Sep-25	3.29%
	5s30s nominal steepener	3-Sep-25	122bp	160bp	90bp	19-Sep-25	105bp
	Receive BoC Sept OIS vs pay Fed Sept OIS	12-Sep-25	7bp	0bp	13bp	15-Sep-25	3bp
	Short Oct SOFR/FF	27-Jun-25	-4bp	-8bp	-1bp	15-Sep=25	-6bp

Exhibit 39: Global Rates Trade Book - closed trades

Closed trades

	Closed trades	Entry date	Entry level	Target	Stop	Close date	Level closed
	Pay Sept FOMC OIS	14-Aug-25	4.12	4.25	4.05	22-Aug-25	4.12
	Short 3y spread	30-Jun-25	-31bp	-40bp	-20bp	1-Aug-25	-31bp
	6m5y payer ladder	7-Mar-25	0bp	25bp	-10bp	11-Aug-25	0bp
	Pay Dec FOMC OIS	15-May-25	3.78%	4.25%	3.5%	1-Aug-25	3.83%
	Short July SOFR/FF	30-Jun-25	+1bp	-2bp	+2.5bp	1-Aug-25	-0.5bp
	3y20y swap spread steepener	2-Jul-25	-51bp	-30bp	-65bp	28-Jul-25	-47bp
	6m1y rec spd	21-Jan-25	11bp	25bp	-11bp	22-Jul-25	2bp
	Sell 1m10y vs 6m10y receiver	21-Jan-25	0bp	20bp	-10bp	22-Jul-25	8bp
	Long 2y3y inflation	24-Apr-25	2.24	2.50	2.05	16-Jul-25	2.46
	Pay July BoC OIS	6-Jun-25	2.65%	2.75%	2.55%	14-Jul-25	2.72%
	Long 1y10y rtp spd vs 4m10y rtp	3-Jul-24	0bp	20bp	-17bp	7-Jul-25	-14bp
	Short 30y swap spread	30-Apr-25	-90	-110	-75	30-Jun-25	-91
	10s30s curve steepener	15-May-25	45bp	70bp	15bp	13-Jun-25	48bp
	Pay SOFR Z6	29-May-25	3.26%	3.9%	2.75%	13-Jun-25	3.27%
	Pay July FOMC OIS	8-May-25	4.15%	4.3%	4.05%	6-Jun-25	4.3%
	Pay Bank of Canada June OIS	21-May-25	2.675%	2.75%	2.6%	04-Jun-25	2.75%
	Z5-Z6 FF curve flattener	13-May-25	-34bp	-70bp	-10bp	29-May-25	-57bp
	1y fwd 2s10s floor ladder	28-May-24	-20bp	-40bp	-60bp	28-May-25	0bp
	Long July SOFR/FF	11-Apr-25	-3.5bp	+1bp	-7bp	19-May-25	+1bp
	1y inflation swap short	10-Apr-25	3.49	2.90	3.90	12-May-25	3.12%
	Pay June FOMC OIS	2-May-25	4.18%	4.3%	4.05%	8-May-25	4.29%
	Pay July FOMC OIS	22-Apr-25	3.93%	4.15%	3.8%	2-May-25	3.99%
	Pay July FOMC OIS & receive 5Y OIS	22-Apr-25	-41bps	-80bps	-15bps	2-May-25	-60bps
	Long 30y swap spread	22-Apr-25	-94	-84	-105	1-May-25	-90
	1m fwd 2s30s bull flattener	22-Apr-25	0bp	20bp	-10bp	1-May-25	4bpr
	Short 30y swap spread	13-Mar-25	-79.5	-105	-70	22-Apr-25	-94
	2s5s30s fly	11-Apr-25	-55bp	-90bp	-35bp	22-Apr-25	-74
	Long 2y swap spread	11-Apr-25	-26	-17	-32	22-Apr-25	-27
	M6M7 SOFR curve steepener	3-Apr-25	1bp	30bp	-20	10-Apr-25	7
	Pay May'25 FOMC OIS	7-Apr-25	4.20	4.33	4.1	10-Apr-25	4.29
	3m2y receiver spd vs 3m2y payers	21-Jan-25	0bp	30bp	10bp	10 Apr 25	24bp
	TIPS 5y5y beta-breakeven long	1-Apr-25	-14	40	-50	9 Apr-25	-58
	5s30s steepener	6-Oct-23	20	90	-20	9-Apr-25	90
	2y forward, 3s28s inf steepener	4-Sept-24	0bps	30bps	-15bps	9-Apr-25	32bp
	1y4y inflation swap long	14-Nov-24	2.56	3	2.25	8-Apr-25	2.21
	Pay June FOMC OIS swap	26-Mar-25	4.15%	4.25%	4.09%	3-Apr-25	4.07%
	1y10y payer ladders	28-May-24	0bp	37bp	-20bp	27-Mar-25	5bp
	6m5y payer ladder	24-Nov-24	0bp	27bp	-15bp	27-Mar-25	7bp
	M5/Z6 flatteners	4-Feb-25	-18	-50	10	3-Mar-25	-48.5
	6m1y rtp ladders	9-Aug-24	0	25	-20	9-Feb-25	16
	Short 30y spreads (May '54)	20-Jun-24	-80	-105	-65	06-Feb-25	-80
	Receive TII 1/26 to TII 1/30 fwd real yield	12-Dec-24	1.77	1.4	1.98	19-Dec-24	2.05
	Mar/Sep SOFR/FF '25 curve flattener	13-Sep-24	0 bps	-3.5bp	+2bp	17-Dec-24	-3
	1y2y risk reversal	24-Nov-24	0	30	-15	9-Nov-24	15
	5s10s TII steepener	19-Nov-23	-6	50	-40	14-Nov-24	15
	Long 5y30y vol vs 2y30y vol	20-Nov-22	+14bp vega	15bp vega	-10bp vega	24-Nov-24	21bp
	1y fwd 2s10s cap spd a/+50bp	6-Nov-23	20bp	30bp	-20	6-Nov-24	18bp
	Short 1y1y vs 1y10y vol	6-Nov-23	Rec 26bp	30bp	-20	14-Nov-24	27bp
	Buy Dec TY basis	22-Oct-24	0 ticks	2 ticks	-0.75 ticks	06-Nov-24	1.5 ticks
	AU 6m3y receiver 1x1.5	27-Mar-25	4bp	30bp	-15bp	27-Sep-25	12bp
	Selling IVSP (= sell JBZ5 vs receive swap)	20-Aug-25	-12.5	-16.0	-9.5	10-Oct-25	-13.2
	AU 6m1y payer ladder	14-Jul-25	0bp	18bp	-10bp	25-Sep-25	5bp
	Short Dec '26 futures, buy US	15-Aug-25	7bp	50bp	-15bp	19-Sep-25	25bp
	Sell AU Jun '26 futures	25-Jul-25	96.78	96.50	97.00	15-Aug-25	96.91
	Buy Dec '25 bill futures, sell YM	16-May-25	21bp	8bp	27bp	25-Jun-25	14bp
	5s30s JGB curve steepener	15-May-25	198	215	189.5	21-May-25	215
APAC	AU 2s5s flattener vs CAD 2s5s steepener	15-Apr-25	43bp	21bp	54bp	1-May-25	29bp
	10s20s JGB curve flattener	25-Mar-25	73	60	79.5	8-Apr-25	85
	Buy au 3y (YM) , pay Aug RBA	04-Mar-25	-8bp	-50bp	10bp	11-Apr-25	-16bp
	2yr fwd 2s10s OIS flatteners	19-Feb-25	40	25	47.5	4-Apr-25	39
	AU 1y1y risk reversal	24-Nov-24	0bp	40bp	-20bp	27-Mar-25	23bp
	AU Long 1y2y AU vs US receivers	24-Nov-24	0bp	40bp	-20bp	27-Mar-25	15.5bp
	Mar/Sep '25 BOB steepener	3-Oct-24	2bp	6bp	0bp	18-Mar-25	4bp
	Short 5yr JGB ASW	24-Jan-25	0	8	-5	06-Mar-25	8

Exhibit 39: Global Rates Trade Book - closed trades
Closed trades

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

Global rates forecasts

Exhibit 40: Latest levels and rate forecasts

Forecasts by quarter up to Q4 '26 plus YE 2027

		Latest	Q3 25	YE 25	Q1 26	Q2 26	Q3 26	YE 26	YE 27
USA	O/N SOFR	4.12	4.17	3.94	3.95	3.71	3.46	3.21	3.21
	2y T-Note	3.59	3.50	3.30	3.30	3.30	3.35	3.45	3.45
	5y T-Note	3.74	3.70	3.50	3.55	3.55	3.60	3.70	3.75
	10y T-Note	**4.15**	**4.20**	**4.00**	**4.05**	**4.10**	**4.15**	**4.25**	**4.25**
	30y T-Bond	4.73	4.80	4.70	4.75	4.80	4.90	5.00	5.05
	2y Swap	3.37	3.25	3.03	3.01	3.00	3.05	3.15	3.15
	5y Swap	3.38	3.35	3.13	3.16	3.15	3.20	3.30	3.35
	10y Swap	**3.66**	**3.65**	**3.43**	**3.46**	**3.50**	**3.55**	**3.65**	**3.65**
	30y Swap	3.96	3.96	3.84	3.87	3.90	4.00	4.10	4.15
Germany	3m Euribor	2.03	2.05	1.85	1.65	1.65	1.65	1.65	2.15
	2y BKO	2.00	1.90	1.85	1.85	1.90	1.95	2.00	2.25
	5y OBL	2.30	2.15	2.10	2.10	2.20	2.25	2.30	2.60
	10y DBR	**2.70**	**2.65**	**2.50**	**2.50**	**2.60**	**2.65**	**2.70**	**2.90**
	30y DBR	3.28	3.20	3.10	3.15	3.20	3.25	3.30	3.45
	2y Euribor Swap	2.14	2.00	1.95	1.90	1.95	2.00	2.05	2.30
	5y Euribor Swap	2.38	2.20	2.15	2.10	2.20	2.25	2.30	2.60
	10y Euribor Swap	**2.69**	**2.55**	**2.40**	**2.40**	**2.45**	**2.50**	**2.55**	**2.75**
	30y Euribor Swap	2.91	2.80	2.75	2.80	2.85	2.90	3.00	3.15
Japan	TONA	0.48	0.48	0.48	0.73	0.73	0.98	0.98	1.48
	2y JGB	0.93	0.80	0.85	1.00	1.07	1.25	1.30	1.80
	5y JGB	1.23	1.05	1.10	1.25	1.32	1.50	1.55	2.00
	10y JGB	**1.70**	**1.55**	**1.65**	**1.75**	**1.80**	**1.90**	**2.00**	**2.25**
	30y JGB	3.19	3.10	3.25	3.30	3.33	3.35	3.50	3.55
	2y Swap	0.92	0.77	0.82	0.95	1.02	1.18	1.23	1.70
	5y Swap	1.18	1.00	1.05	1.18	1.25	1.40	1.45	1.88
	10y Swap	**1.52**	**1.35**	**1.45**	**1.53**	**1.58**	**1.65**	**1.70**	**1.93**
U.K.	3m Sonia	3.97		3.85	3.50	3.50	3.50	3.50	3.50
	2y UKT	4.00		3.70	3.75	3.80	3.80	3.80	3.95
	5y UKT	4.18		4.15	4.15	4.20	4.20	4.25	4.45
	10y UKT	**4.75**		**4.80**	**4.85**	**4.85**	**4.90**	**5.00**	**5.10**
	30y UKT	5.55		5.55	5.50	5.50	5.55	5.55	5.60
	2y Sonia Swap	3.78		3.50	3.55	3.60	3.60	3.60	3.75
	5y Sonia Swap	3.87		3.85	3.85	3.90	3.90	3.95	4.15
	10y Sonia Swap	**4.20**		**4.25**	**4.25**	**4.25**	**4.30**	**4.40**	**4.50**
Australia	3m BBSW	3.58	3.65	3.45	3.45	3.45	3.45	3.55	3.75
	2y ACGB	3.51	3.40	3.45	3.50	3.55	3.85	3.85	3.85
	5y ACGB	3.76	3.60	3.65	3.70	3.75	3.75	3.95	4.05
	10y ACGB	**4.35**	**4.10**	**4.15**	**4.20**	**4.25**	**4.25**	**4.40**	**4.40**
	3y Swap	3.53	3.40	3.45	3.50	3.55	3.55	3.85	3.85
	10y Swap	**4.32**	**4.10**	**4.15**	**4.20**	**4.25**	**4.25**	**4.40**	**4.40**
Canada	2y Govt	2.48	2.50	2.50	2.50	2.55	2.60	2.65	2.85
	5y Govt	2.76	2.70	2.75	2.80	2.85	2.90	2.95	3.25
	10y Govt	**3.21**	**3.20**	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**
	2y Swap	2.33	2.36	2.36	2.36	2.41	2.46	2.51	2.71
	5y Swap	2.55	2.47	2.52	2.57	2.62	2.67	2.72	3.02
	10y Swap	**2.91**	**2.89**	**2.94**	**2.99**	**3.04**	**3.09**	**3.14**	**3.19**

Source: BofA Global Research

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Appendix: Common acronyms

Exhibit 41: Common acronyms/abbreviations

This list is subject to change

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

Source: BofA Global Research

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Potential Risk at Expiry & Options Limited Duration Risk

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

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The use of standardized options and other related derivatives instruments are considered unsuitable for many investors. Investors considering such strategies are encouraged to become familiar with the "Characteristics and Risks of Standardized Options" (an OCC authored white paper on options risks). U.S. investors should consult with a FINRA Registered Options Principal.

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We, Ralf Preusser, CFA, Agne Stengeryte, CFA, Bruno Braizinha, CFA, Edvard Davidsson, Mark Cabana, CFA, Mark Capleton, Meghan Swiber, CFA, Oliver Levingston, Ralph Axel, Ronald Man, Shusuke Yamada, CFA, Sphia Salim and Tomonobu Yamashita, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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