



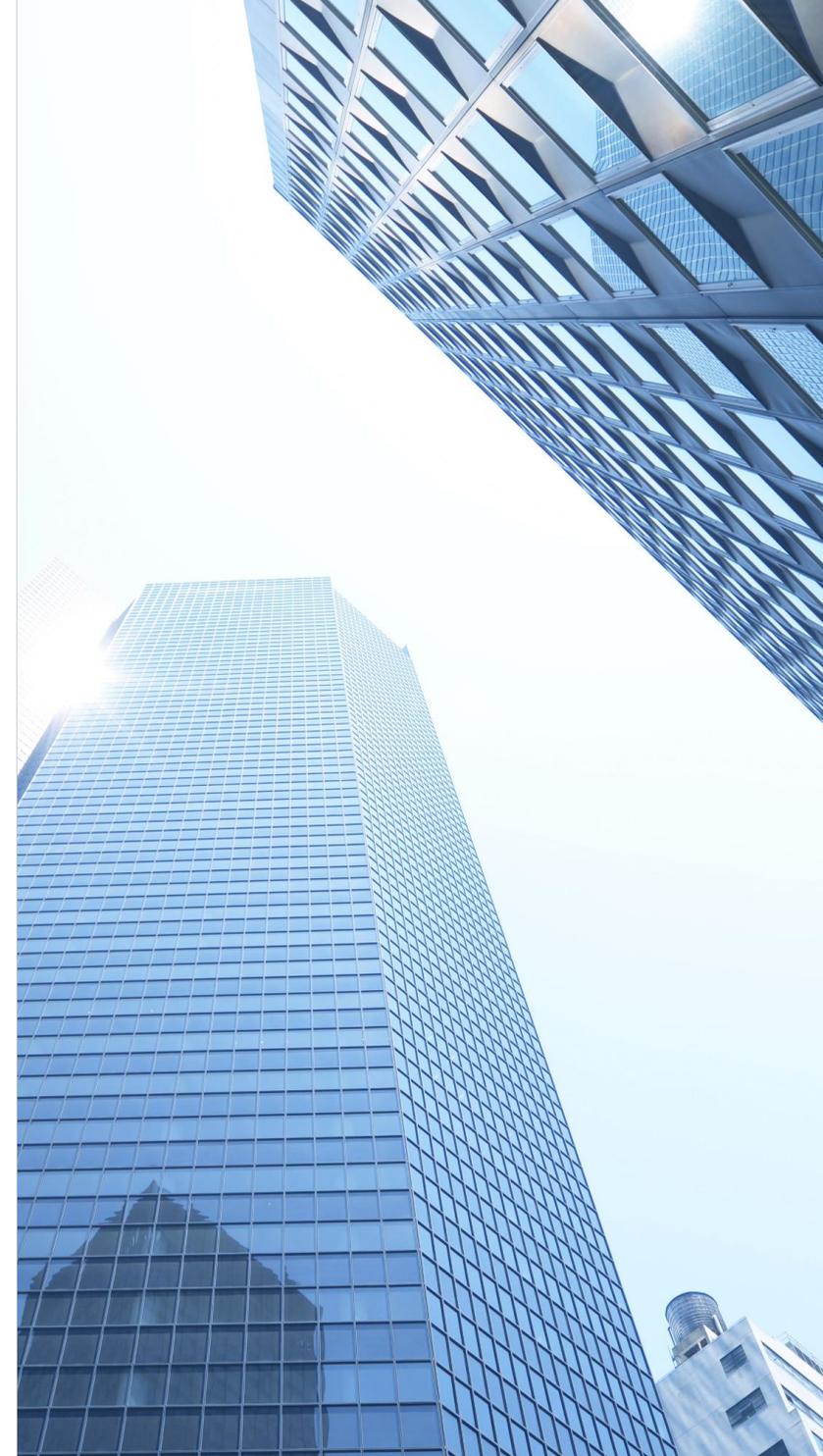
Mizuho G4 Rates & FX views

(Growth, Inflation, Rates, FX)

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November 2025



Mizuho FX, Policy and Rates Forecasts

Policy rates	31-Oct	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Δ Dec26
Fed (mid point)	3.875	3.625	3.625	3.625	3.625	3.625	-25bps
ECB (depo)	2.00	2.00	1.75	1.75	1.75	1.75	-25bps
BoE	4.00	3.75	3.50	3.25	3.00	3.00	-100bps
BoJ	0.50	0.50	0.75	0.75	1.00	1.00	50bps

Rates		31-Oct	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
USTs	2Y	3.60	3.80	3.85	3.90	4.00	4.05
	5Y	3.72	3.85	3.95	3.95	4.05	4.15
	10Y	4.10	4.40	4.50	4.60	4.70	4.80
	30Y	4.66	4.85	4.90	4.95	5.00	5.05
Germany	2Y	1.99	2.00	2.00	2.15	2.15	2.20
	5Y	2.25	2.40	2.50	2.80	2.85	2.90
	10Y	2.65	2.85	3.00	3.35	3.45	3.50
	30Y	3.21	3.45	3.65	4.00	4.15	4.15
UK Gilts	2Y	3.79	3.65	3.50	3.40	3.50	3.65
	5Y	3.90	3.75	3.70	3.60	3.75	3.85
	10Y	4.42	4.30	4.20	4.10	4.30	4.50
	30Y	5.19	5.00	4.85	4.75	4.90	5.05
JGBs	2Y	0.92	1.00	1.15	1.15	1.20	1.25
	5Y	1.22	1.30	1.50	1.55	1.60	1.65
	10Y	1.66	1.65	1.75	1.80	1.90	2.00
	30Y	3.05	2.95	3.00	3.00	2.90	2.80

FX	31-Oct	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
EUR/USD	1.16	1.17	1.18	1.19	1.20	1.22
USD/JPY	154	152	149	147	135	135
GBP/USD	1.31	1.31	1.31	1.31	1.32	1.33
EUR/GBP	0.88	0.89	0.90	0.91	0.91	0.92
EUR/JPY	178	178	176	175	174	174
GBP/JPY	203	200	195	192	191	190
DXY	100	99	98	97	96	95

The view

- **Policy:** One more Fed cut this year, BOE and ECB to cut by more than priced, BOJ to keep hiking (but at a slower pace) despite near term uncertainty.
- **Rates:** Bearish US duration + steepening driven by the long end (Growth, Inflation pressures + issuance + debt sustainability pressuring the long end of the curve).
- **FX:** USD strength near term on higher US data surprises, but weakness into 2026. EUR to keep climbing following the 2017 playbook but a near term pullback likely. Global growth rising = USD weakness.



The Quick take and Core views for 2026

- **The Cycle:** Looser monetary and fiscal policy will lead to trend or above trend growth in H1 2026, but H2 may be a different story as AI adoption slows down and US midterms approach.
- **The Fed and ECB:** A Fed with an easing bias (one more cut in 2025) vs an ECB trying to remain on hold (one potential cut in March). Expect a new Fed chair to discuss a 2% neutral. But the data to make that more difficult to achieve. Our US Economics team expects the Fed unchanged in 2026 and may have to consider hikes in 2027 but for now the outlook is balanced.
- **Politics:** New Fed Chair choice, Trade tariffs, US midterms, German spending, French budgets, Ukraine ceasefire hopes all to watch.
- **Rates: US:** 3% in 1y1y to act as an anchor point not a floor with the Labour market weakening, despite growth holding up.
 - **STIRT: US:** Prefer receiving front-end + SFR Z5Z6 flatteners. **EA:** Biased to receive TKYH6 but strong PMIs delay the move.
 - **Duration:** 10yr Bunds to retest 3.00% in 2026; front-end anchored by final ECB cut risk.
 - **Curve: US:** Beyond 2y, expect steepening on inflation overshoot, term premia, and fiscal/issuance risks. **EA:** Steepening driven by Dutch pension flows, German fiscal push, and term premia repricing.
 - **Periphery:** EGB spreads converge; OATs face politics (75–90bp), BTPs benefit from consolidation (75–85bp), Spain strong (45–60bp). Bunds may underperform swaps except long end.
 - **SSAs:** In EUR SSAs, elevated issuance, limited ECB cuts, and the German fiscal push point to renewed bearish pressure in SSAs. In USD SSAs, wider USD swap spreads and large redemptions may come to bite too, especially for higher-beta names such as Koreans if risk sentiment wobbles.
 - **XCCY:** Dollar premium remains compressed; Liberation Day failed to shift levels. EURUSD XCCY now driven by swap spreads, not risk sentiment; curve looks too flat. Borrowing USD far cheaper than 2022; EUR issuance still attractive after record year. Expect EURUSD XCCY steepening as USD spreads widen vs EUR; prefer receiving belly vs paying long end.
- **FX:** Tactical long USD bias (EUR/USD short) into Nov on declining EUR data surprises, stretched positioning + Fed cut uncertainty. But watch for December seasonality and 2026 German fiscal capping sustained USD upside though; Fed Chair uncertainty adds volatility. Outperformance of EUR in 2025 fades; gains slow with **1.17–1.22 by end-2026** thanks to rising Global growth. Risks skew to a lower EUR/USD if US re-accelerates or German fiscal fails to offset manufacturing slump.

Mizuho Calls

FED 		Forecast: Mizuho Securities USA (MSUSA) (Steven Ricchiuto, Alex Pelle)		Market pricing* (Fut, as of: 13:20 on 31/10)
Current rate (mid point)	3.875%	Rates remain restrictive at these levels.		
2025 Dec meeting	3.625%	25bps cuts: Dec	3.72%	
2026 Dec meeting	3.875%	Unchanged rates in 2026	3.06%	
Peak	5.375%	July 2023 - Sept 2024.		
Mizuho EMEA FICC Strategy view	<i>Markets are likely to push pricing below the 3.0% LR DOT and attempt 2.75%.</i>			
Balance sheet reduction: QT (active and passive)				
2025	QT ending Dec 2025.			
ECB 		Forecast: Mizuho EMEA (Jordan Rochester & Evelyne Gomez-Liechti)		Market pricing* (Fut, as of: 13:20 on 31/10)
Current rate (depo)	2.00%	Rates remain restrictive at these levels.		
2025 Dec meeting	2.00%	No more cuts in 2025	1.92%	
2026 Dec meeting	1.75%	One last cut in March and risk of hikes into 2027.	1.85%	
Peak	4.00%	Sep 2023 (end of hiking cycle) - June 2024 (start of cutting cycle).		
Mizuho EMEA FICC Strategy view	<i>We expect a lower terminal rate than the market, but German spending will embolden hawks.</i>			
Balance sheet - QT (active and passive)				
2025	Passive QT with no APP or PEPP reinvestment.			
2026				
BoE 		Forecast: Mizuho EMEA (Jordan Rochester & Evelyne Gomez-Liechti)		Market pricing* (Fut, as of: 13:20 on 31/10)
Current rate	4.00%	Rates remain restrictive at these levels.		
2025 Dec meeting	3.75%	25bps cuts: Nov.	3.76%	
2026 Dec meeting	3.00%	25bp cuts: Feb, Apr, Jul to the BoE's neutral ~3%.	3.36%	
Peak	5.25%	Aug 2023 (end of hiking cycle) - Aug 2024 (start of cutting cycle).		
Mizuho EMEA FICC Strategy view	<i>CPI to be slow to fall, but slack is opening up and the budget will lead to lower forecasts.</i>			
Balance sheet - QT (active and passive)				
Sept 2024 to 2025	£100bn	In line with recent history and towards the BoE's Preferred Minimum Range of Reserves (PMRR).		
Sept 2025 to 2026	£70bn			
BoJ 		Forecast: Mizuho EMEA (Jordan Rochester & Evelyne Gomez-Liechti)		Market pricing* (Fut, as of: 13:20 on 31/10)
Current rate	0.50%	Still on track toward neutral rate.		
2025 Dec meeting	0.50%	Next Hike at December or January's meeting.	0.64%	
2026 Dec meeting	1.00%	Jul 2026 and risk of more	1.00%	
Peak	1.00%	Reaches terminal rate in 2026, but risk of 1.5% by end 2027.		
Mizuho EMEA FICC Strategy view	<i>A 25bps hike in Jan. But Politics (domestic and US) and USD/JPY the key variables.</i>			
Balance sheet - QE				
2025	JPY 3.3tn per month (YE).			
2026	JPY 1.7tn per month (YE).			

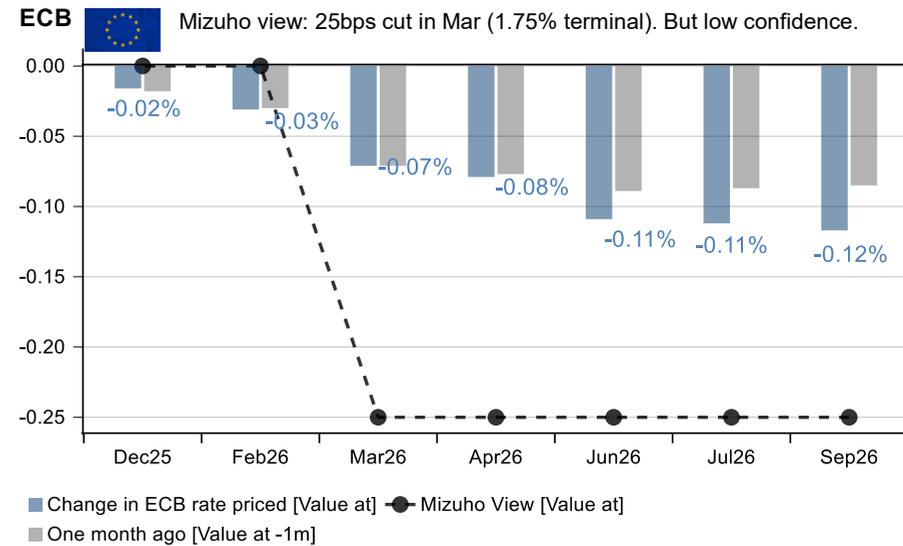
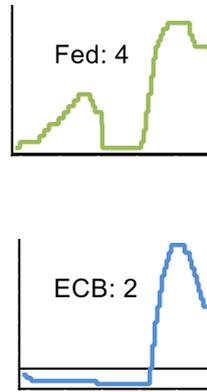
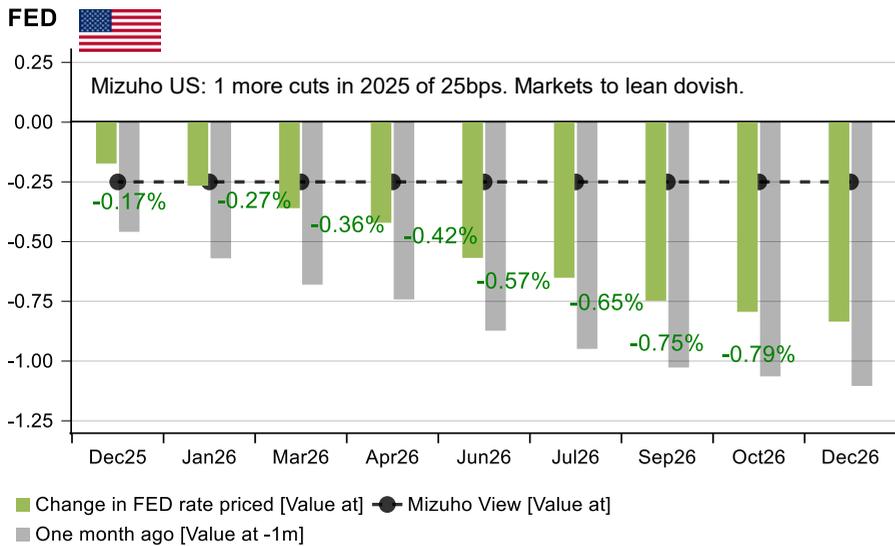
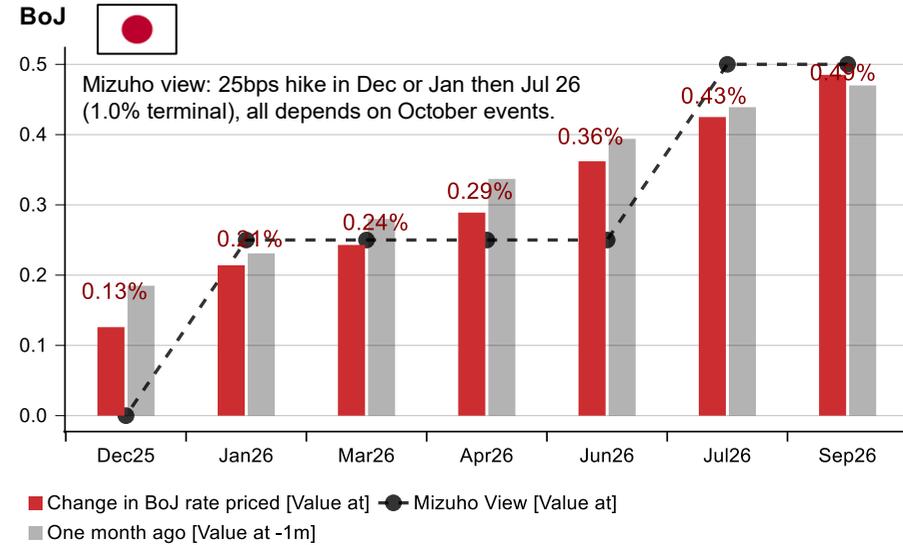
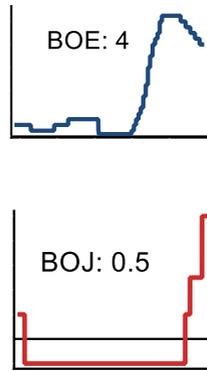
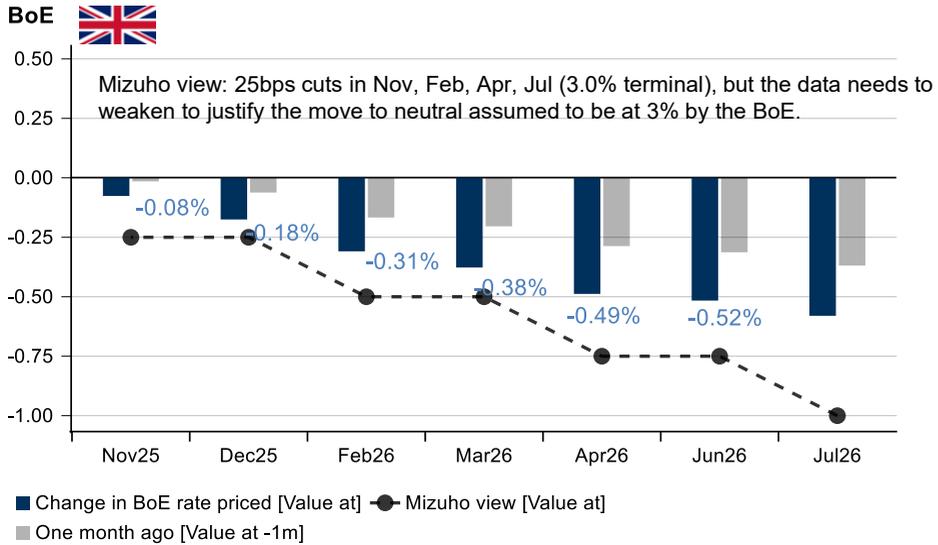
EMEA (BoE and ECB)

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What's priced in?



Event Risks ahead (G4)

Colours refer to:
Tariff-related
EU-related (ECB, fiscal)
UK-related
Affected by government shutdown

November 2025

- **1 Nov:** US Tariff on Heavy Trucks begins
- **1 Nov:** Potential snap elections in France
- **4 Nov:** US JOLTS
- **4 Nov:** US Durable Goods
- **4 Nov:** US Factory Orders
- **4 Nov:** US PMIs
- **5 Nov:** US Quarterly Refunding Announcement
- **5 Nov:** ADP Monthly Employment Change
- **5 Nov:** Supreme Court to hear Tariff IEEPA case
- **6 Nov:** US Jobless Claims
- **6 Nov:** US Wholesale Inventories
- **7 Nov:** US Non-Farm Payrolls
- **Early Nov:** Supreme Court to hear tariff case in first week of November, result by Dec?
- **22-23 Nov:** G20 summit in South Africa
- **25-28 Nov:** Germany's 2025 budget approval in Bundestag
- **26 Nov:** UK Autumn Budget – will the Chancellor raise taxes and weigh on growth? Will the PM survive the drop in the polls?

December 2025

- **10 Dec:** FOMC Meeting
- **11 Dec:** Vote on first part of France draft budget law
- **Dec:** Final vote on the France draft budget law
- **18-19 Dec:** Final European Council meeting of the year
- **19 Dec:** France - Decrees to keep spending levels into next year (article 47)
- **Dec/Jan:** Various tariff investigation deadlines under Section 232. Copper, timber & lumber (5 Dec), Semiconductors and Pharma (27 Dec), Critical minerals and trucks (17 Jan), commercial aircraft and jet engines (26 Jan)
- **Early next year:** Basel II Timing (Bowman suggesting eSLR first, then GSIB surcharge, stress capital buffer and then Basel III)

Rating reviews:

- **7 Nov:** Germany (Moody's) rating review
- **21 Nov:** Italy (Moody's) rating review
- **21 Nov:** UK (Moody's) rating review
- **5 Dec:** Germany (S&P) rating review

Other key events:

- **Likely in Q3/Q4:** Potential Sector-specific tariffs on copper, lumber, semiconductors, pharma

High Convictions & Trade Ideas

USD:

- **[STIRT]** Dec 2025-Dec 2026 Flatteners (SFRZ5Z6 flatteners). Entry: -53bps; Target: -100bps (by Dec); Stop: -60bps.
- **[Swap Spreads]** Deregulation = long 2Y USD swap spreads. Entry: -23.6bps; Target: -10bp; Stop: -30bps.

EUR:

- **[STIRT]** Receive ESTR Mar26; Entry: 1.84%; Target: 1.75% by end Mar26; Stop: 1.90%.
- **[Spreads]** Long 10Y SPGB vs 10Y OAT (OAT 3.2% May35 - SPGB 3.15% Apr35 spread). Entry: 4.5bp (Date: 10th April); Target: 30bp; Stop: -5bp.
- **[Spreads]** Long BTS (short-term BTP future) vs short TU (2yr UST future). Entry: 3.82c | 59.9bp; Target: 4.5c | 82bp ; Stop: 3.5c | 49.5bp.
- **[FX]** Tactical Short EUR/USD. Entry: 1.1625; target 1.1450 (by end-Nov). Stop 1.1740.

GBP:

- ***We have taken profit*** **[STIRT]** SONIA Dec25-Dec26 flattener; Entry: -0.25%; Target: -0.5% by end Nov; Stop: -0.12%.
- **[STIRT]** Long SFIZ6 vs SFRZ6. Entry: -0.60%; Target: -0.20% (by end-Nov); Stop: -0.70%.
- **[Curve]** Long UK-US 2s5s box steepener; Entry: 10bps; Target: 30bps by end Dec; Stop: 0bps.
- ***We have taken profit*** **[Curve]** Tactical 2s20s SONIA flattener boxed against 2s20s Euribor (6M); Entry: -3.6bps; Target: 16bps by Dec; Stop: -10bps.

JPY:

- **[STIRT]** BoJ to hike ahead. Pay JPY 1y1y. Entry: 85bps; Target 125bps, by end-Dec; Stop 90bps.
- **[Curve]** Flatter 2s10s with a hiking cycle in place. Entry: 75bp (Date: 28th May); Target: 55bps by end Sep; Stop: 82bps.

Trade Table

Trade Type	Entry date	Exit date	Trade	Conviction	Rationale	Entry (bps)	Target (bps)	Stop Loss (bps)	Exit	Current	Carry PnL (bps, 1M)*	P&L (bps)*	P&L (bps, net of carry)*	
US	STIRT	03-Jun-25	SFRZ5-Z6 flatteners	High	Fed's 2025 DOT is now an anchor point for the front end, from here the balance of risks are towards less cuts priced in 2025. But for 2026 pricing, this remains a market biased to cuts over hikes. Labour market on the backfoot, and a new Fed Chair add to this.	-53	-100	-60.0	-65.00	-65.0	0.0	12.0	12.0	
US	Swap Spreads	28-May-25	Long 2Y USD swap spreads	Medium	The eSLR change was confirmed (eSLR to be revised from 5% to 3.5%-4.5% and from 6% to 3.5%-4.5% for their banking subsidiaries), with an open door to see UST carveouts following the 60-day comment period. Meanwhile, the Fed is expected to meet to discuss deregulation more broadly, which should support this trade.	-23.6	-10	-30	-20.77	-20.77	1.8	2.8	12.3	
EU	Spreads	10-Apr-25	Long 10y SPGB (SPGB 3.15% Apr35) vs OAT (OAT 3.2% May35)	High	France's debt sustainability trajectory looks worrying and political risk premium has increased lately following the failed pension reform talks. 2026 budget negotiations will be tricky. There is also the risk of a downgrade to single-A later in the year. Spain looks attractive as there is no issuance push coming later in the year and performance YTD has been muted.	3.15	30	-5	26.44	26.44	-0.1	23.3	24.3	
EU	STIRT	09-Oct-25	Receive ESTR Mar-26	Low	European data surprises in decline (German industrial production particularly weak), ECB risks underpriced and could be downgraded in Dec after recently turning neutral - still not yet at the bottom of neutral 1.75-2.00%. Tariffs are likely to start weighing on orders.	184	175	190	186.00	186.00	0.0	-2.0	-2.0	
EU	FX	09-Oct-25	Short EUR/USD	Medium	Data momentum declining; ECB risks underpriced for a March cut; French political woes; Loose US FCI to spur better US data surprises on the margin and long EUR FX positioning is looking ripe for a squeeze.	1.163	1.145	1.174	1.15	1.15	0.2	1.14	1.3	
EU	Spreads	09-Oct-25	Long BTS vs TU	Medium	Dovish ECB repricing, EUR rates vol low, BTP-Bund spreads tighten; +4.7bp/month cushion - Risks: Weak US data → Fed below-neutral, Strong EZ data → ECB wait-and-see. Auction concessions (offset by UST timing).	59.9	82	49.5	64.82	64.82	4.7	4.9	9.0	
UK	Spreads	03-Jun-25	Long UK-US 2s5s Box Steepener	Medium	UK curve to steepen as the market will price a more aggressive BoE cutting cycle in H2. Fed to cut once more in 2025.	10	30	0	5.78	5.78	2.2	-4.2	7.1	
UK	STIRT	20-Aug-25	04-Nov-25	Long SFIZ5Z6 Flattener	Medium	Sticky inflation in 2025, deeper cuts to come in 2026	-25	-50	-12	-40.00	-40.00	0.0	15.0	15.0
UK	STIRT	05-Sep-25	Long SFIZ6 vs SFRZ6	Medium	UK pricing is shifting more dovishly, but we expect weak labour market data to add more cuts priced in Z6.	-0.60	-0.20	-0.70	-0.26	-0.26	0.0	34.0	34.0	
UK	Curve	21-Aug-25	03-Nov-25	SONIA 2s20s flattener vs Euribor (6M) 2s20s steepener	Medium	Tactical flattening in the UK curve. Dutch PF flow and a market that is too hyped about potential ECB hikes	-3.6	16	-10	-1.00	-1.45	2.7	2.6	9.3
JPY	STIRT	03-Jun-25	Pay JPY 1Y1Y	Medium	Domestic data continues to point to the need for the BoJ to hike (solid Labour, CPI, surveys). Global risk sentiment recovery.	85	125	78	109.74	109.74	-1.9	24.7	15.0	
JPY	Curve	03-Jun-25	JPY 2s10s Flattener	Low	Japan trimming long end bond issuance. Front end to re-price higher terminal rate for BoJ. Curve near top of recent two-year range.	75	55	80	71.60	71.60	-0.3	3.4	1.9	
Total											9.3	95.7	118.5	

* Returns and carry calculations for FX trades are shown as percentage return.



Trade idea overview

What's working

- **USD:** The Fed decided to cut policy rates by 25bp this week, but Powell remained less committal regarding the December meeting. This triggered a hawkish repricing in the front-end SOFR strip, which also hurt our **SFRZ5Z6 flattener**. The Fed also announced the end of QT in November, a move that was well telegraphed by markets so, understandably, swap spreads tightened in a “buy the rumour, sell the fact” fashion. However, the dip was bought, which helped our **long 2Y USD swap spread position** close higher this week. We still expect the Fed to keep a dovish bias and US deregulation headlines to help both of our positions.
- **EUR:** A “wait-and-see” ECB plus strong data was enough to hurt our **ESTR Mar25 receiver** and **tactical short EUR/USD** positions. Our **OAT-SPGB widener** remained unchanged. The big surprise here was the **long BTS vs TU**, which was helped by 1) the spread tightening in EGBs and 2) the hawkish repricing in front-end USD rates.
- **GBP:** Last week was a quiet week for GBP markets as data releases slowed down ahead of this week’s BoE meeting. The bid and outperformance for GBP rates continued though, which helped all our trades that are now in the green. Shout-out to the **long SFIZ6 vs SFRZ6**, which also benefitted from the hawkish Fed cut. The next big test is the BoE meeting, but we think the risk is still tilted for lower rates ahead.
- **JPY:** The BoJ disappointed markets by being very non-committal regarding a December hike. January now seems as more likely. This saw markets’ excitement about hikes ease, driving the curve slightly bull-steeper with it, erasing a small part of the profit we have accumulated in both our **paid 1y1y swap position** and our **2s10s flattener**. We still think hikes are coming and see value in keeping them on.

What's not and why?

- **GBP:** Quick word on the **tactical 2s20s SONIA (boxed against Euribor)**. This week we have seen decent flattening in the GBP rates curve that has helped our trade move back into profit. We have taken this opportunity to take profit.

Top themes and 2026's Grey Swans

- 1. Russia-Ukraine ceasefire hopes weighing on energy but is it in the price?**
- 2. Testing the dual Fed mandate: Inflation expectations rising but Labour markets softening.**
- 3. German short-term pain, waiting for long term gain. Issuance to ramp up and steeper curves.**
- 4. Dutch Pension reform**
- 5. Sticky UK inflation but weak Labour data**
- 6. Will Japan embark upon bold fiscal policy?**



Theme 1: Russia-Ukraine Ceasefire hopes

- Odds of a ceasefire in Ukraine are 50/50 by end 2026, biggest impact is in Ukraine fixed income.
- Oil, EURPLN and EURHUF are trading at the recent lows, so a good amount is in the price?

Odds of a ceasefire are rising, with Ukraine bonds rallying

Will Russia-Ukraine agree to a ceasefire? Polymarket odds



— Ukraine 10yr (UKRAIN 4 ½ 02/01/2035), rhs
 — Polymarket Russia x Ukraine ceasefire by end of 2026, lhs
 — Polymarket Russia x Ukraine ceasefire in 2025, lhs

What would be the market impact?

A lot depends on the strength of the ceasefire (Russia is known to break them, within hours in previous Ukraine efforts) and sanctions removal. Markets would however price in the probabilities of:

- **Lower energy and foodstuff commodities:**
 - 🛢️ **Oil** – Oversupply expected, prices likely to fall.
 - 🔥 **Natural Gas** – Reduced geopolitical risk could lower prices.
 - 🌾 **Wheat** – Peace may restore Ukrainian exports, pressuring global prices.
 - 🏠 **Gold** – Safe-haven demand to decline.
- **European Stocks to Rally:** 🏦 **Banks**, 🏭 **Manufacturing**, 🚚 **Logistics** – Especially those with **Russian exposure**.
- **Defence Stocks Under Pressure:** After years of strong performance, peace could reduce demand.
- **Lower Yields:** Driven by falling energy prices and inflation expectations.
- **Currency Moves:** **EUR** – Modest strengthening. **PLN & HUF** – Expected to outperform as **Ukraine reconstruction beneficiaries**.



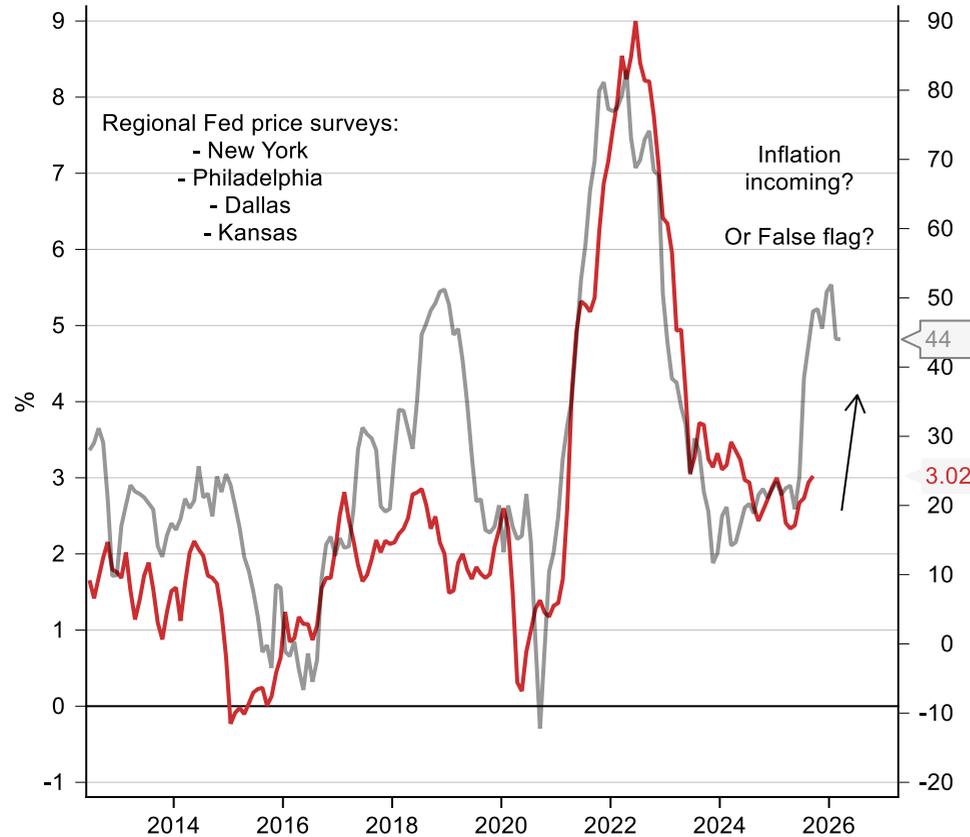
Theme 2: Testing the dual mandate: Inflation expectations up but Labour down

- Tariff passthrough has been minimal so far, but firms are reporting strong price pressures
- Labour force surveys suggest hiring is weaker and signals suggest higher unemployment ahead.

Labour remains the key factor for this market on where the front-end trades, but NFP could rebound could make 2026 hard to judge

Regional Fed surveys suggest inflation incoming, but a 5-month lag

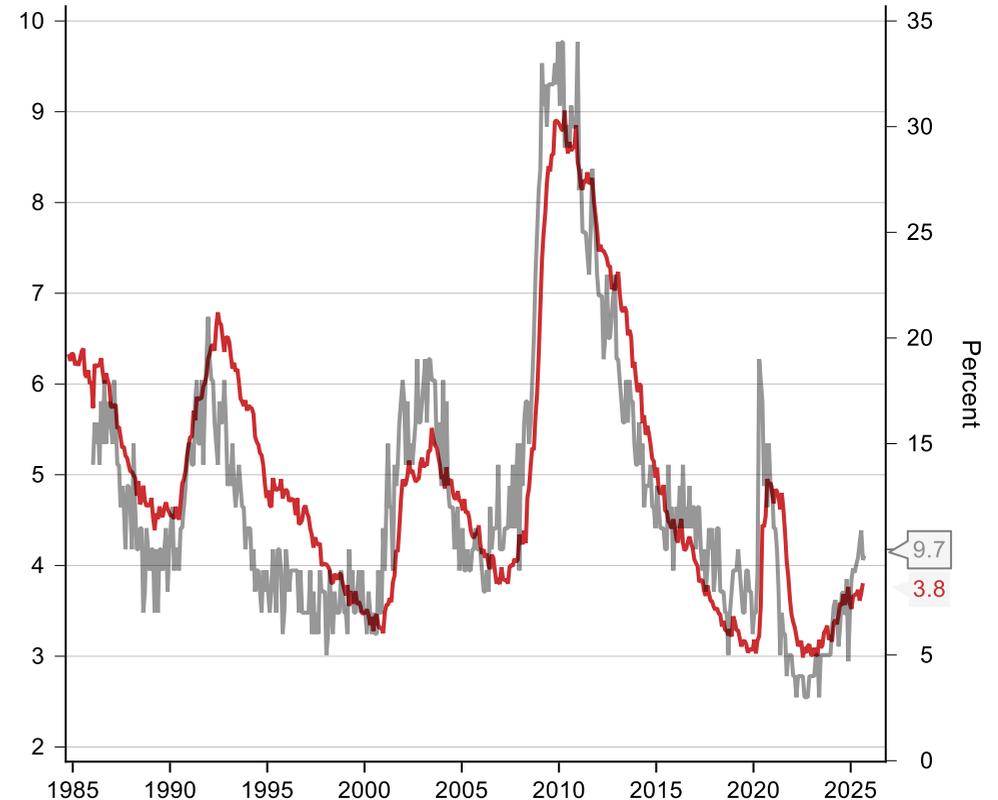
US Headline CPI led by Regional Fed surveys (five months)



— Federal Reserve Regional surveys prices paid, rhs — US Headline CPI, lhs

NFIB shares the same message of conference board, higher UE ahead?

NFIB small business, poor sales vs Unemployment



— NFIB Small Business, Single Most Important Problem, Poor Sales, rhs — Unemployment rate ex temporary layoffs, lhs

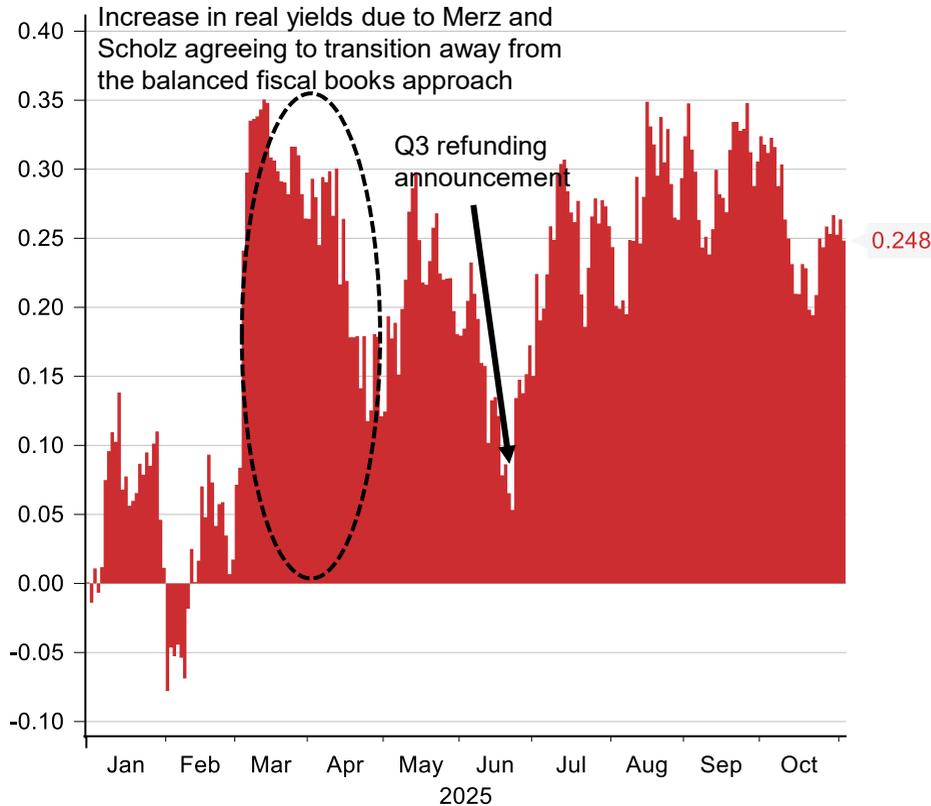


Theme 3: German issuance ramp up

- Total borrowing needs are expected to increase from ~€57bn in 2024 to ~€143bn in 2025 to ~€174bn in 2026.
- Infrastructure: €50bn/year for the next 10 years from 2025 onwards.
- Defence: 2025: ~€86bn (2.4% of GDP) (~€62bn from budget + ~€24bn off-budget fund). 2026: €108bn (2.8% of GDP) (~€83bn from budget + ~€25bn off-budget fund) ... until a total of ~€153bn in 2029 (3.5% of GDP) (all from the regular budget).

Real EUR rates are pricing

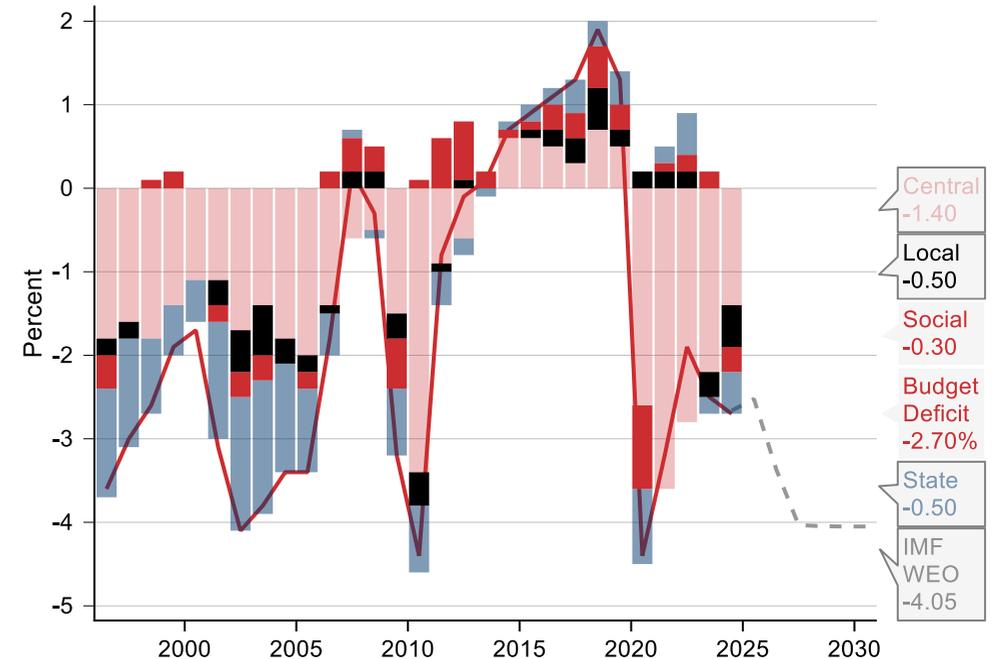
Changes in German 10yr implied real yields



■ EUR Real yield

Rising public deficit in Germany

Germany, Public Deficit, % GDP, Eurostat



- Eurostat, Government Deficit/Surplus, Debt & Associated Data, State Government,...
- Eurostat, Government Deficit/Surplus, Debt & Associated Data, Social Security Fu...
- Eurostat, Government Deficit/Surplus, Debt & Associated Data, Local Government,...
- Eurostat, Government Deficit/Surplus, Debt & Associated Data, Central Governme...
- - IMF WEO, General Government Net Lending/Borrowing, Estimate
- Eurostat, Government Deficit/Surplus, Debt & Associated Data, General Governme...



Theme 4: Dutch Pension reform

- The window for Dutch Pension Funds to transition from a Defined Benefit (DB) to a Defined Contribution (DC) model is closing. The new lifecycle investment model means less need to hedge via long-end receiver swaps. We estimate this **decrease in hedging needs at around 205mn/01**, with **104mn/01 (paying flow) for 2025** and **55mn/01 (paying flow) for 2026 = 25% still to go in 2026**.

Dutch Pension funds at a glance

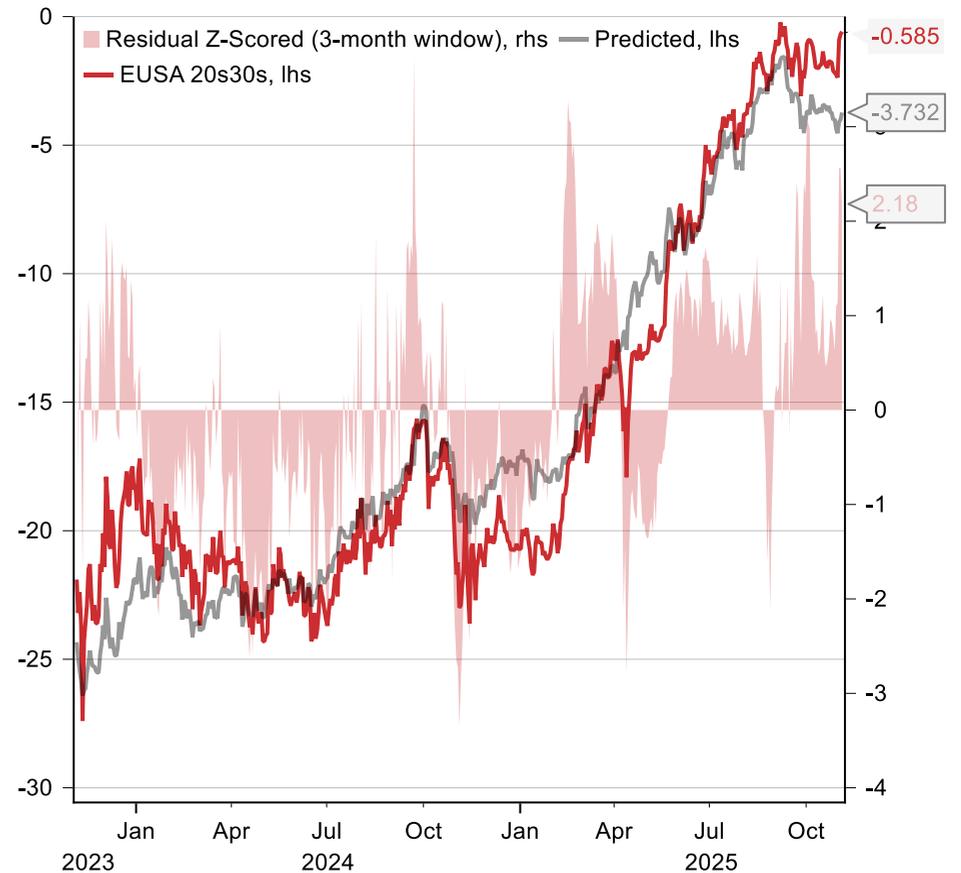
Pension Fund	Transition Date	Pension liabilities (EUR bn)	Relative Size (% of Total Liabilities)	Investment assets (EUR bn)	Interest rate hedges (%)	Latest Policy funding ratio (%)
ABN	01 Jan 27	20	1.5%	26	94	126
ABP	01 Jan 27	450	33.5%	519	58	114
Vervoer	01 Jan 27	29	2.2%	34	56	113
Bpf Bouw	01 Jan 26	51	3.8%	66	83	127
Detail	01 Jan 26	26	1.9%	31	74	123
PMT	01 Jan 26	76	5.7%	84	76	109
PME	01 Jan 27	49	3.6%	57	71	114
PGB	01 Jan 27	28	2.1%	33	73	117
Rabo	01 Jan 27	21	1.5%	25	94	118
PFZW	01 Jan 26	217	16.2%	247	59	110
Industry Total	01 Jan 28	1343	100%	1600	69	117

What the transition from DB to DC means in terms of DV01

Age	Interest rate cover (assumed)	No. Members (as % of total)	Theoretical		Difference	
			DC DV01	DC DV01	DB vs DC	DB vs DC
<30	15%	14%	-48	64		
30 - 34 years	23%	8%	-73	98		
35 - 39 years	31%	8%	-99	132		
40 - 44 years	39%	8%	-125	167		
45 - 49 years	48%	8%	-151	201		
50 - 54 years	56%	10%	-176	236		
55 - 59 years	64%	10%	-202	270		
60 - 64 years	72%	10%	-228	304		
65+	80%	24%	-254	339		
Total			-164	219	-153	-205

Our global PCA model suggests that part of the steepening is Dutch PF related

Euribor 20s30s global PCA model



We regressed the EUSA20s30s on the first component of a PCA using SOFR, SONIA, TONAR, OAT and BTP curves. We interpret the residual as the part that is not explained by a global steepening move.

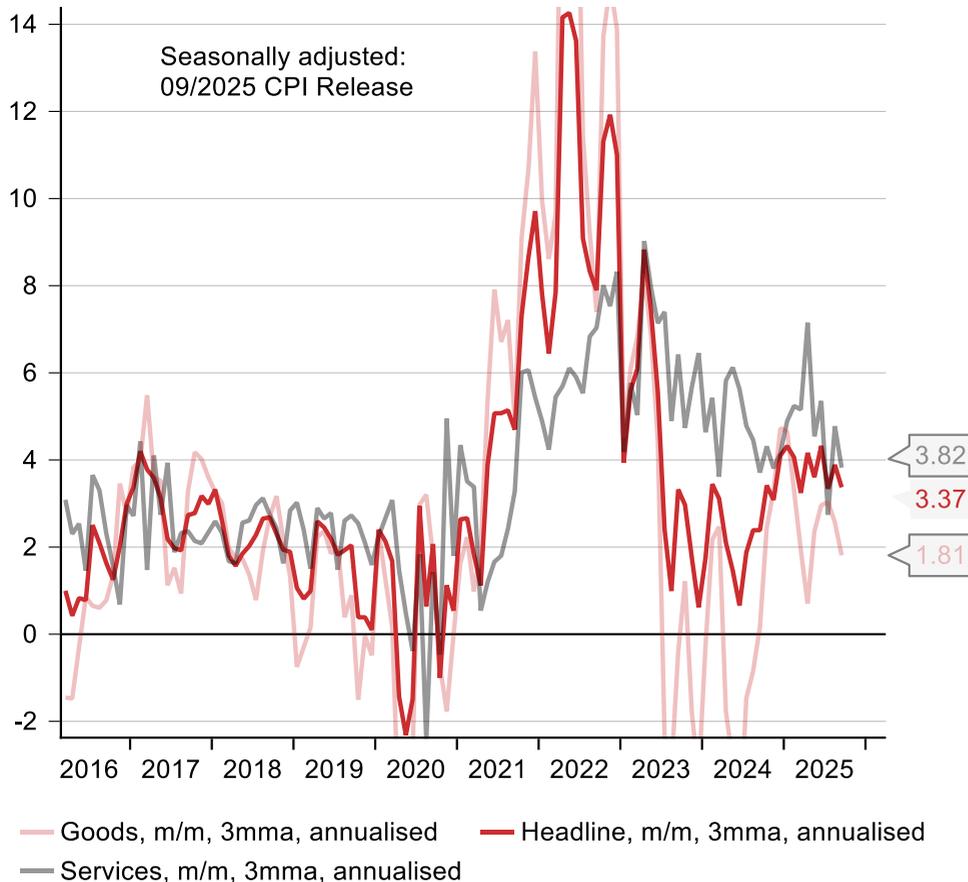


Theme 5: Sticky inflation, noisy Labour data and a hawkish turn in BoE voting?

1. A welcome soft CPI allows for dovish pricing, but it's still uncomfortably high.
2. But the Labour market slack is opening up and will lead the doves toward cuts into 2026.

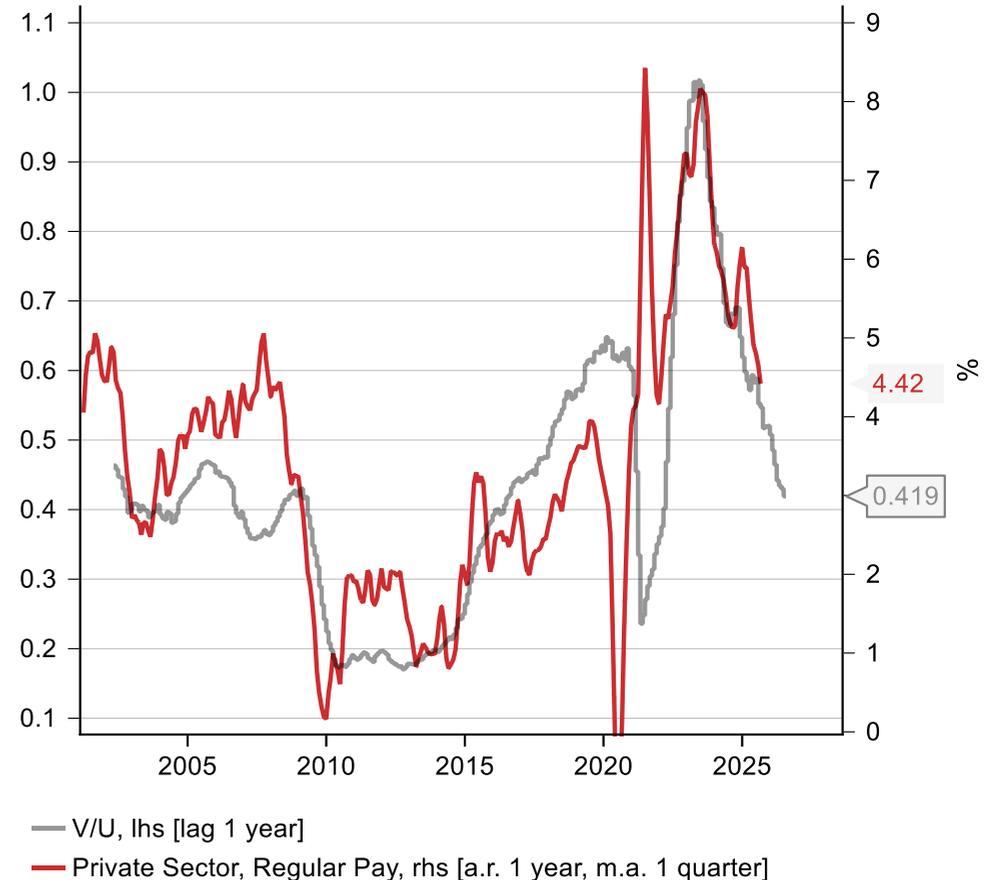
Short term momentum in UK inflation – painfully higher than 2%.

UK CPI short term momentum (SA m/m 3m average)



But job vacancies are in sharp decline. Labour market slack building

Vacancies/Unemployment ratio leads UK Wages by 1 year



JAPAN'S NEW FINANCE MINISTER: SATSUKI KATAYAMA – Proactive Yet Disciplined

PROFILE SNAPSHOT



- 23-year MOF official
- LDP technocrat, conservative nationalist
- Historic appointment alongside PM Sanae Takichi

"DISCIPLINED PROACTIVE FISCAL POLICY"

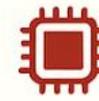
- Counter-cyclical stimulus during economic slack
- Strong fiscal rules & credible funding
- Transparency and public trust emphasized

"JPY120-130/USD is fair; yen strength helps curb inflation."

IMMEDIATE PRIORITIES



Inflation relief
energy subsidies



Growth investment
tech & security

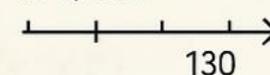


National security
defense spending

¥ 13.9T+
= 2.2% GDP

Comparable to previous years
but may expand

JPY/USD



STABILITY
for yen & JGB

Balancing Growth and Discipline – A Technocrat's Approach to Fiscal Policy



GREY SWANS 2026

10 SURPRISES THAT COULD RESHAPE MARKETS

Low probability, high impact events

FED GOES ROGUE



PEACE DIVIDEND

HOT GERMANY



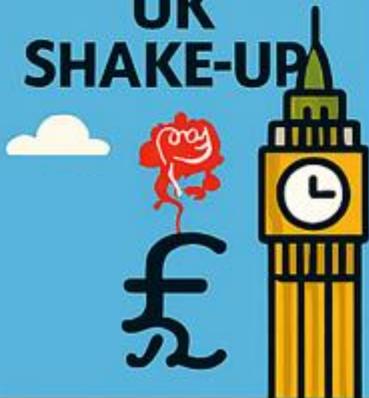
FRANCE SHIFTS



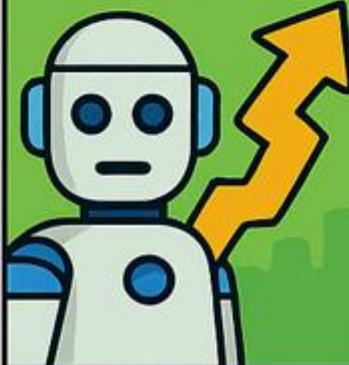
JAPAN UNLEASHED



UK SHAKE-UP



AI TWIST



DIGITAL SHOCK



MINERAL SQUEEZE



CLIMATE CHAOS





2026 Risks on our mind – Grey Swan events – Potential market impact

1. New Fed Chair Doesn't Play by the Rules – YCC QE is back

- **Markets:** Significant rates rally; weaker USD debasement
- **Inflation:** Accelerates to a 4% handle, asset price bubble
- **Growth:** Policy uncertainty dampens investment; boom-bust dynamics but YCC leads to short term boost.

2. Peace in Ukraine-Russia

- **Markets:** Energy prices fall; European equities rally; EM risk premium narrows, EUR higher, fiscal spending hopes higher.
- **Inflation:** Disinflationary via cheaper energy and food.
- **Growth:** Eurozone rebound; global trade improves.

3. Germany Overheats

- **Markets:** Bund yields spike; ECB hawkish tilt; euro strengthens.
- **Inflation:** Eurozone core inflation sticky; wage pressures rise.
- **Growth:** Short-term boom, but risk of ECB-induced slowdown.

4. Le Pen for President

- **Markets:** OAT-Bund spreads widen; euro under pressure; safe-haven flows to USD, CHF, JPY. Curve steepens.
- **Inflation:** FX depreciation adds imported inflation.
- **Growth:** Confidence shock; investment slows in France.

5. Japan Goes Full Sanaenomics

- **Markets:** JGB yields surge; yen weakens sharply; global bond spillover.
- **Inflation:** Domestic inflation depends on VAT cuts; but higher eventually
- **Growth:** Japan growth boost via tax cuts; global liquidity tightens.

6. UK Leadership Change

- **Markets:** GBP lower; weaker fiscal rules = steeper curves
- **Inflation:** Spending hikes risk inflation tilt, hawkish BoE.
- **Growth:** Risk of policy missteps; depends on policy.

7. Quantum computing AI Bust; Productivity Boom

- **Markets:** Falling costs for AI lead to lower AI Tech equities; cyclicals outperform; bond yields lower on disinflation.
- **Inflation:** Disinflationary via efficiency gains.
- **Growth:** Structural boost to potential GDP; short-term tech capex pain.

8. Cyber Attacks & Deep Sea Cables Cut

- **Markets:** Risk-off; equities drop; gold and USD rally.
- **Inflation:** Supply chain disruptions push prices up.
- **Growth:** Trade and data flow disruptions hit global GDP.

9. Rare Earth Mineral Embargo

- **Markets:** Commodities spike; EV/tech sectors hit; inflation hedges rally.
- **Inflation:** Input costs surge; green transition slows.
- **Growth:** Manufacturing bottlenecks; slower tech adoption.

10. Record Heatwaves & Weather Disasters

- **Markets:** Agricultural commodities spike; insurance sector stress; ESG assets gain traction.
- **Inflation:** Food and energy prices surge; supply chain disruptions add cost pressures.
- **Growth:** Lower productivity; infrastructure damage; fiscal costs rise for disaster relief.

USD



Economic and Monetary policy outlook for the US for 2026

USD: A new Fed chair, weaker Labour markets but resilient economy, is 3% the floor or ceiling for 1y1y? A strong anchor for rates

- **The Data:** With loose financial conditions expect a rebound in consumer lending activity and data surprises into Q1. But there remain worrying signs in the Labour markets that firms hiring intentions are in decline amid squeezed margins (tariffs) and the roll out of AI (job replacement?). Tariff led inflation is set to push CPI towards low-t-mid 3% by April 26, then decline back to a mid-2% handle by Dec 26.
- **The Fed:** Despite inflation rising to 3.3% or so by April the new Fed chair in May 26 will be focused on forward looking forecasts of a decline to come and a debate about a 2% or 3% neutral rate. The market currently expects 3 more rate cuts in the new year (after the one we expect in 2025). Taking rates down to 3%. **Our US Economics team are more hawkish than this market view**, looking for one cut this year, unchanged rates in 2026. Strategy wise **we expect the market to continue pricing in the rate cuts** as growth data may be holding up, but Labour markets continue to weaken, and inflation is not accelerating as quickly as feared.
- **Rates: 3% in 1y1y to act as an anchor not a floor** with most the recent growth in US GDP stemming from AI investment, US Labour markets creaking and a strong bias in the market to trade US data from the weak side. **We like receiving front end rates** with SFR Z5Z6 flatteners. Once we go beyond the 2y point of the curve we expect steepening driven by lower front-end rates and higher issuance/growth risks down the line thanks to monetary and fiscal policy stimulus. We see several reasons why **the long end of the curve may see higher yields ahead**: 1) our view of an ongoing inflation overshoot as the Fed delivers further cuts to an economy that is proving resilient; 2) there is already a move towards neutral rates priced in front-end rates that should cap how much more UST yields can fall; 3) the supportive sentiment in USD risk assets that will likely prevent any sort of sustained risk-off flow; and 4) the decrease in confidence in the US government that could see investors demand a higher term premia from USTs.
- **FX:** The rush to hedge USD assets after Liberation Day is long over, but strong negative USD seasonality in December makes it hard to be bullish on the USD for too long. We hold a **tactical long USD bias** (via EUR/USD short) in October/November as the German fiscal stimulus and USD portfolio rebalancing flow story is well positioned and the ECB rate cut risk in March 26 underpriced for when Euro Area data surprises look to be turning lower. Beyond that, the negative USD seasonality in December, German fiscal spending in 2026 and new Fed Chair in May 2026 **make it hard to be too bullish on the USD as you will be fighting against the current administration's (direct or indirect) agenda**.
- **Politics:** With the OBBA Act behind us political market influence will stem from trade talk tensions, **the choice of the Fed Chair** and the Government shutdown. Despite all the sabre rattling around trade and politics from the administration what is clear to us is that threats will eventually die down and peace made with the aim of keeping the market supported into next years mid-terms. Any politically caused drawdown in risk sentiment will likely continue to be a fade as it has been for the past few years.

Event Risks ahead (US)

Timeline of risk events:

November 2025

- **1 Nov:** US Tariff on Heavy Trucks begins
- **3 Nov:** ISM Manufacturing Index
- **3 Nov:** Quarterly Borrowing Estimates
- **4 Nov:** US Off-Year Elections (county/muni level)
- **4 Nov:** US JOLTS
- **4 Nov:** US Durable Goods
- **4 Nov:** US Factory Orders
- **4 Nov:** US PMIs
- **5 Nov:** US Quarterly Refunding Announcement
- **5 Nov:** ADP Employment Change
- **5 Nov:** Supreme Court to hear Tariff IEEPA case
- **6 Nov:** US Jobless Claims
- **6 Nov:** US Wholesale Inventories
- **7 Nov:** US Non-Farm Payrolls
- **9 Nov:** Delay to implementation of higher tariffs on Chinese imports expires
- **11 Nov:** Weekly ADP Employment Change (New)
- **22-23 Nov:** G20 summit in South Africa

December 2025

- **10 Dec:** FOMC Meeting
- **Dec/Jan:** Various tariff investigation deadlines under Section 232. Copper, timber & lumber (5 Dec), Semiconductors and Pharma (27 Dec), Critical minerals and trucks (17 Jan), commercial aircraft and jet engines (26 Jan)

2026

- **1 Jan:** US tariff on cabinets boosted to 50% and upholstered furniture to 30%
- **28 Jan:** FOMC Meeting
- **Early next year:** Basel II Timing (Bowman suggesting eSLR first, then GSIB surcharge, stress capital buffer and then Basel III)
- **By End Feb:** Powell's term ends
- **Mar:** Various tariff investigation deadlines under Section 232. Polysilicon and derivatives, aircraft systems (28 Mar)
- **May:** Various tariff investigation deadlines under Section 232. PPE, Robotics and Industrial Machinery (30 May)

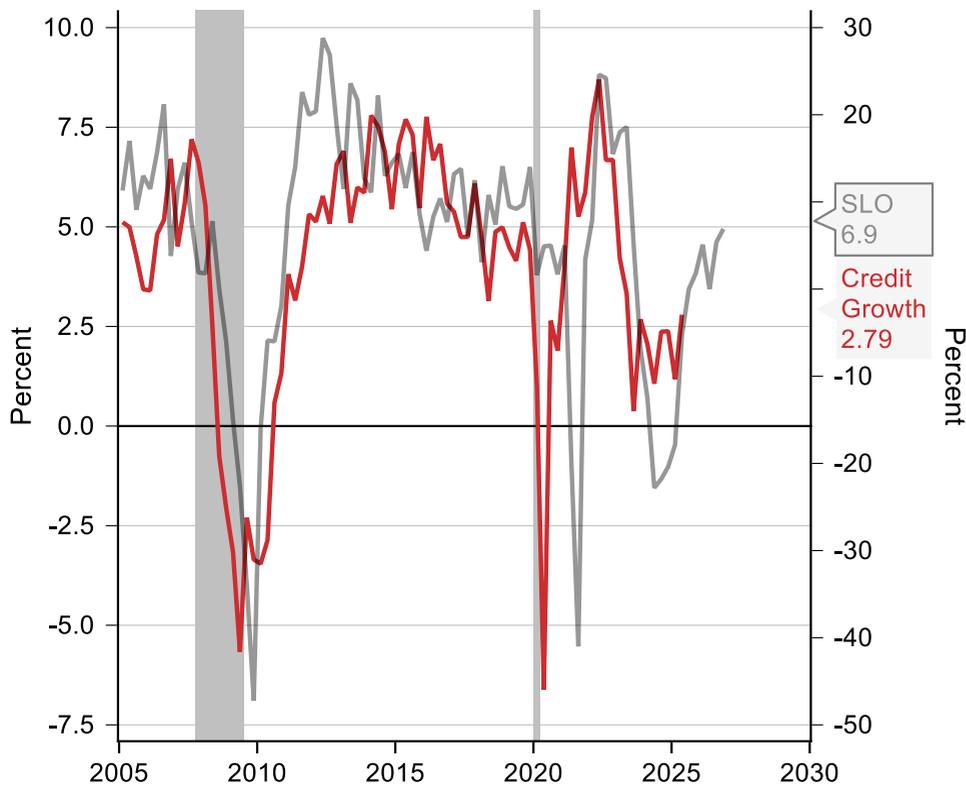


US Growth – to rebound?

- Weak Credit growth is expected to rebound if the signal from the senior loan officer survey is a guide.
- Growth in US surveys is mixed, ISM notably weak but PMIs rebounding.

Consumer Credit growth follows SLO survey by six months

Consumer Credit growth follows SLO willingness to lend (1y)



— Senior Loan Officer Opinion Survey Increased Willingness to Lend, rhs [la...
 — US Consumer credit growth, lhs

Growth depends on who you ask – ISM vs PMI Services

US ISM (Grey) vs PMI (Red) - Services



— US ISM Services — US Services PMI

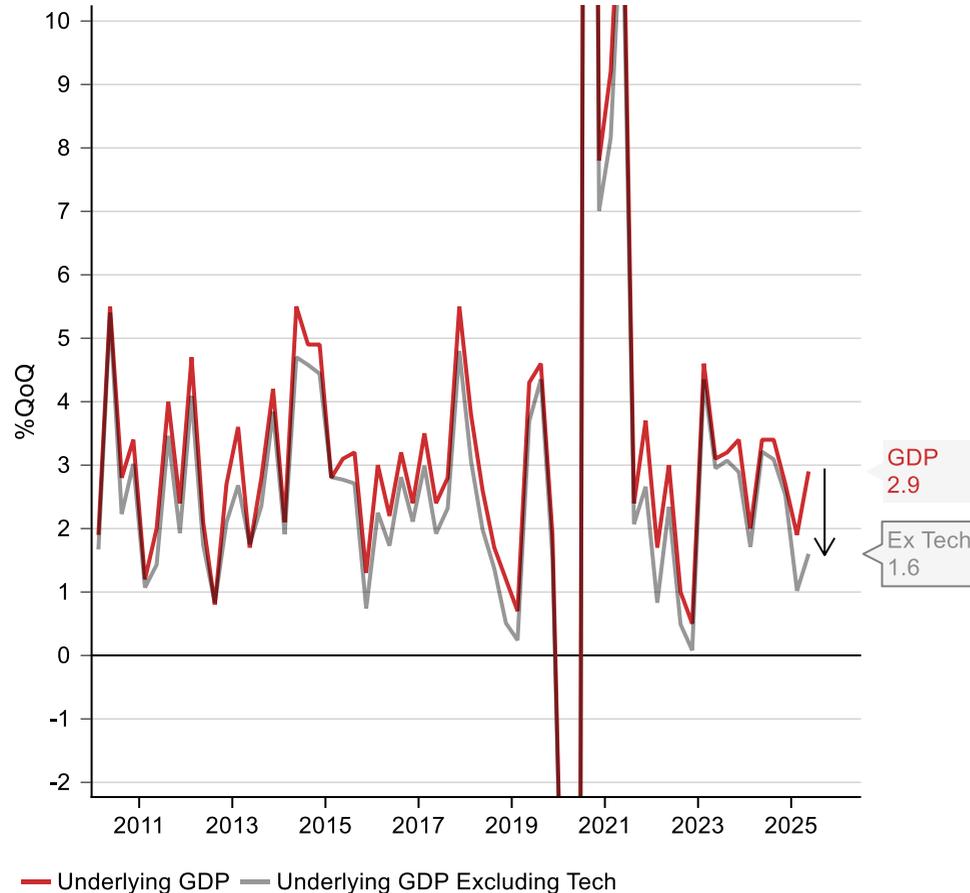


AI Growth – The Impact of AI and it's influence on the growth numbers

- **Would the US be less exceptional without AI?**
 - Yes, but the AI theme has yet to play out fully.

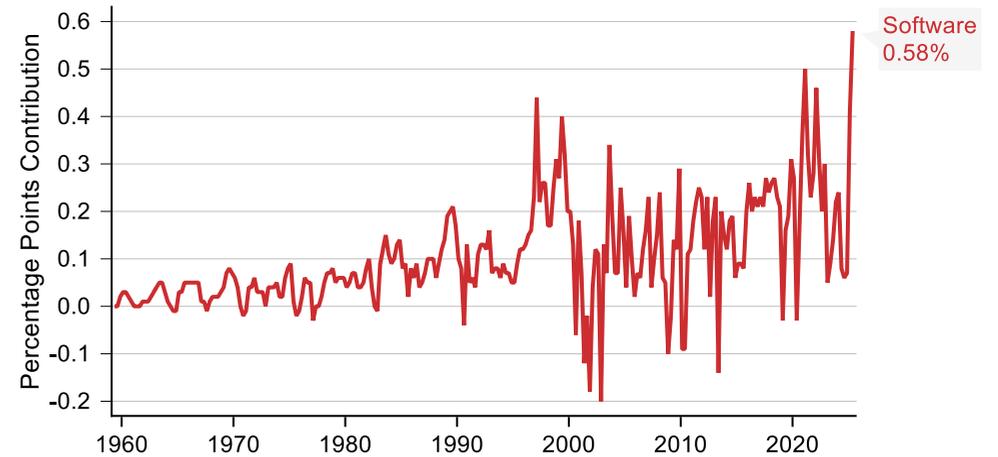
US GDP excluding Tech would be lower

US, Underlying Real GDP Growth (%QoQ SAAR)

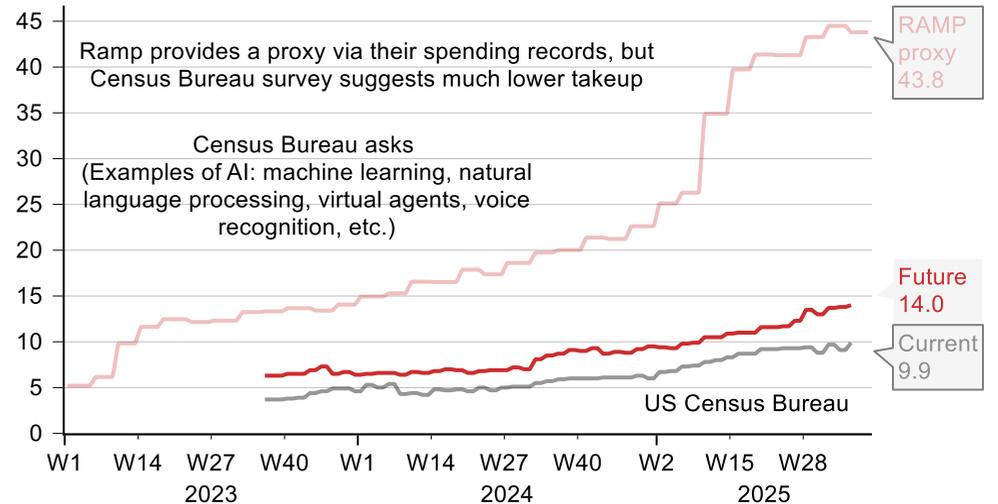


AI is still in the rollout phase – only 10% of firms use it?

US, Private Domestic Fixed Investment, Contributions to YoY GDP, SA



In the last two weeks, you use AI in producing goods or services?





US Inflation – tariffs are one thing, have you seen services?

- Tariff passthrough has been minimal so far, but firms are reporting strong Service price pressures.
- The speed of the CPI acceleration has been revised down in fixings, but still on a 3% handle for CPI.

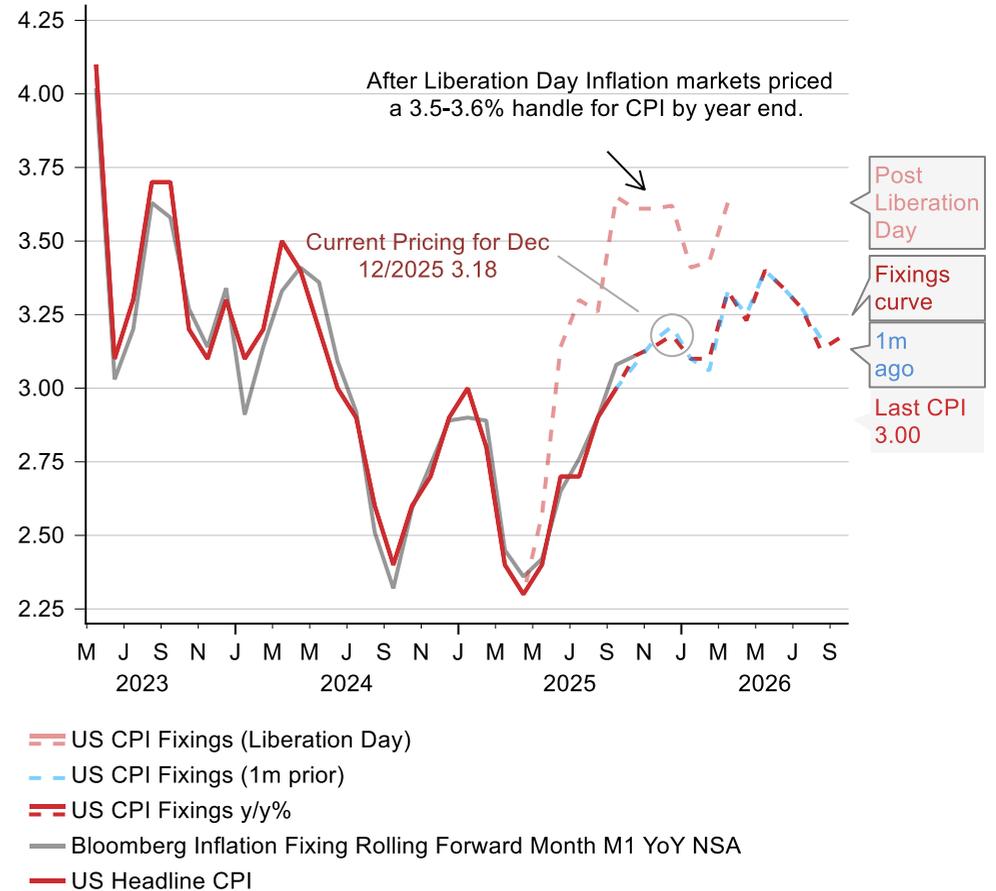
ISM service prices lead US headline CPI?

ISM Service prices lead US Headline CPI by 3m



US CPI fixings y/y%

US CPI fixings y/y%



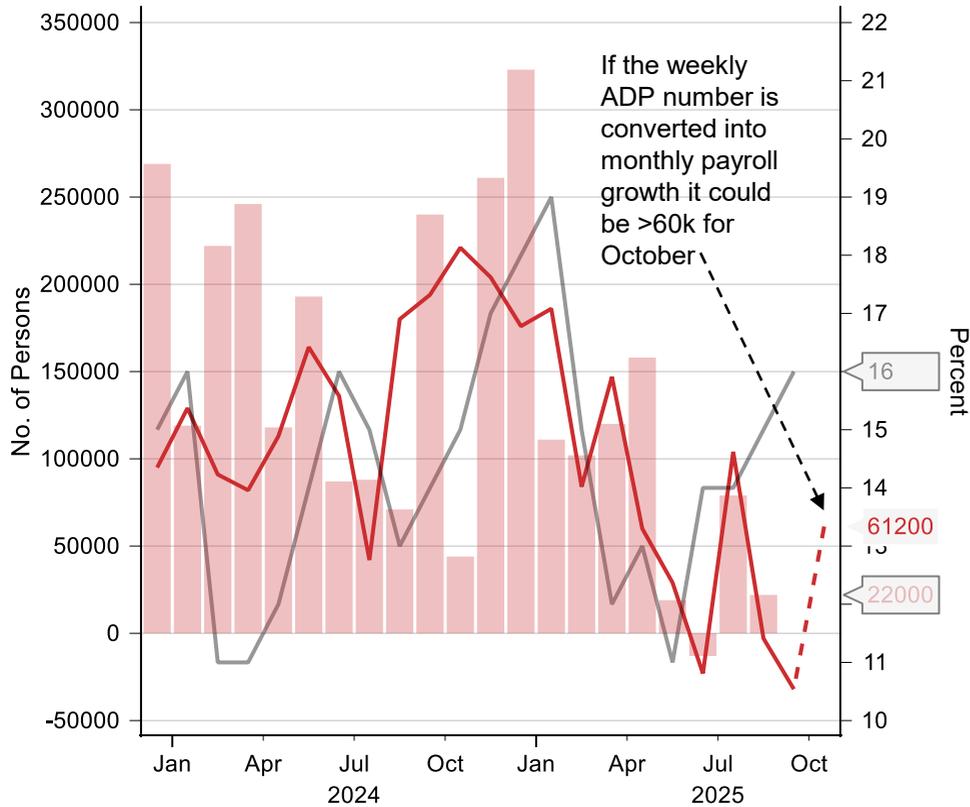


US Labour – noisy of late, but stabilization in claims gives the hawks some room

- Noisy Labour market data but perhaps the lesson is ADP is more reliable of late, Gov hiring sluggish.
- Labour survey signals are mostly pointing to a higher unemployment rate

ADP becoming a better predictor of final NFP?

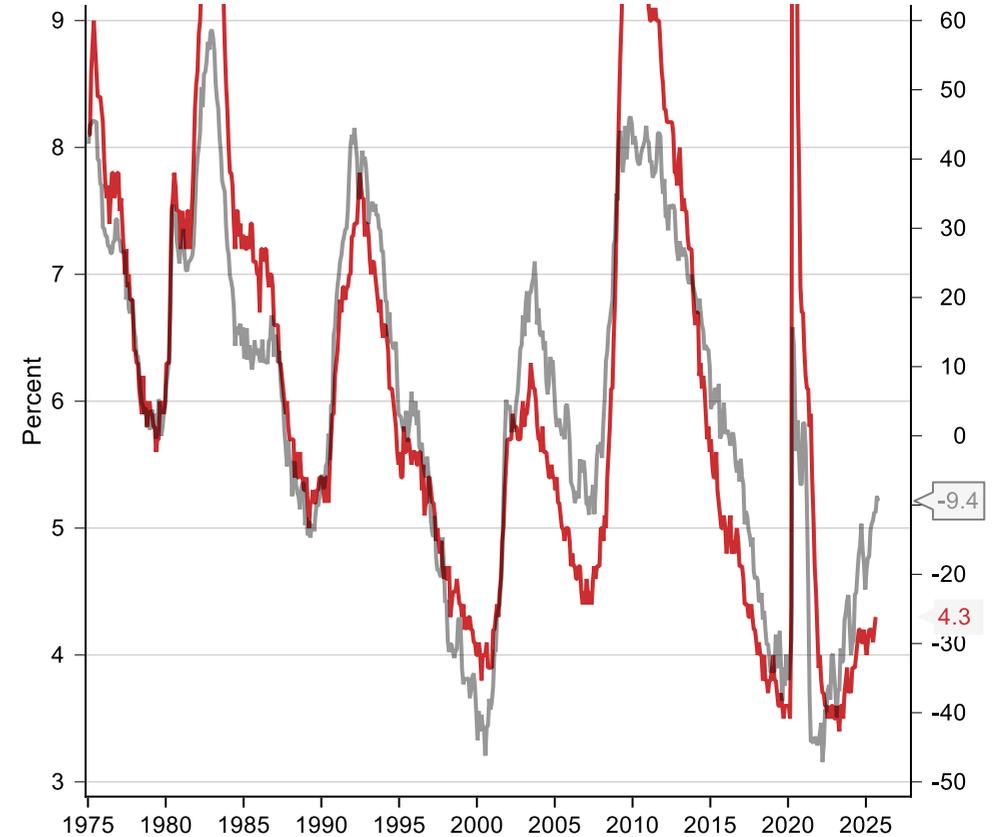
ADP suggested a weak NFP in Sep, but the weekly ADP estimate for Oct is up (extrapolating for Oct below) and NFIB hiring plans were firm too



■ NFP, lhs — NFIB, Small Business, Hiring Plans, Next Three Months, rhs — ADP, lhs

The chart that gets most doves excited – low jobs confidence

United States, Conference board vs unemployment



— Jobs, Hard to get - Plentiful (Conference board), rhs — Unemployment Rate, lhs

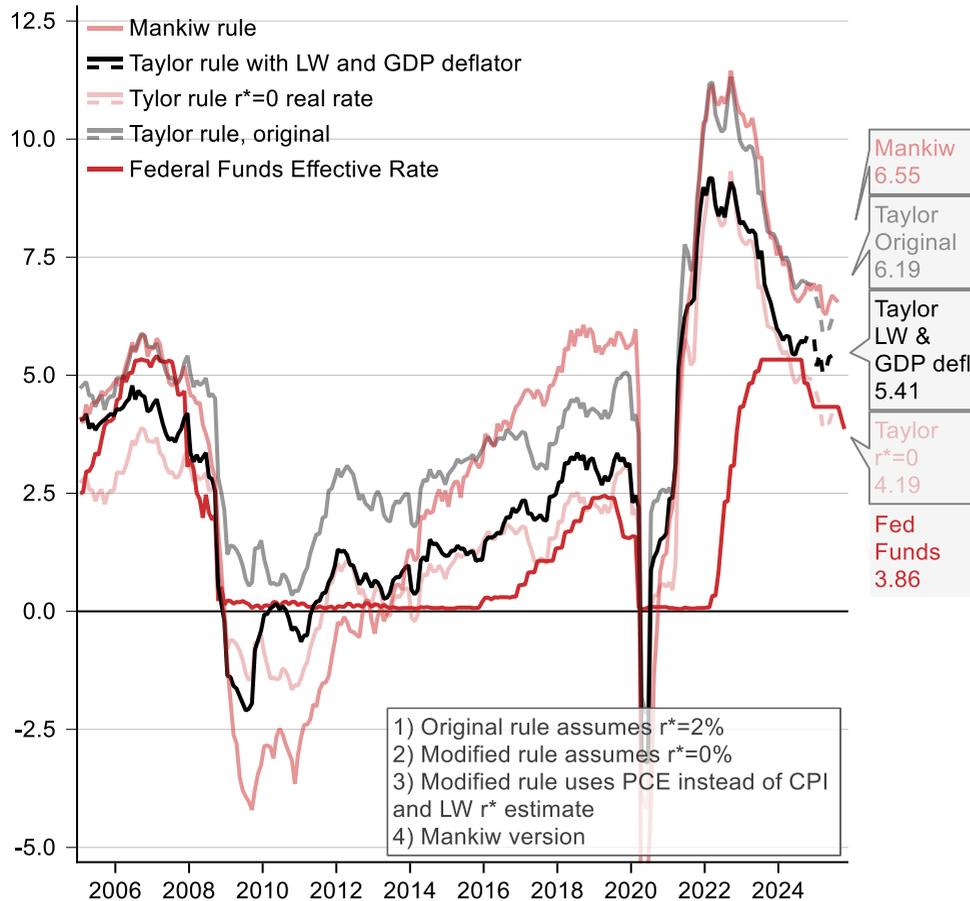


US - Fed Policy, Taylor rules and Fed speak

- Various Taylor Rule's suggest policy is loose if anything
- But Fed commentary has been trending towards the more dovish side

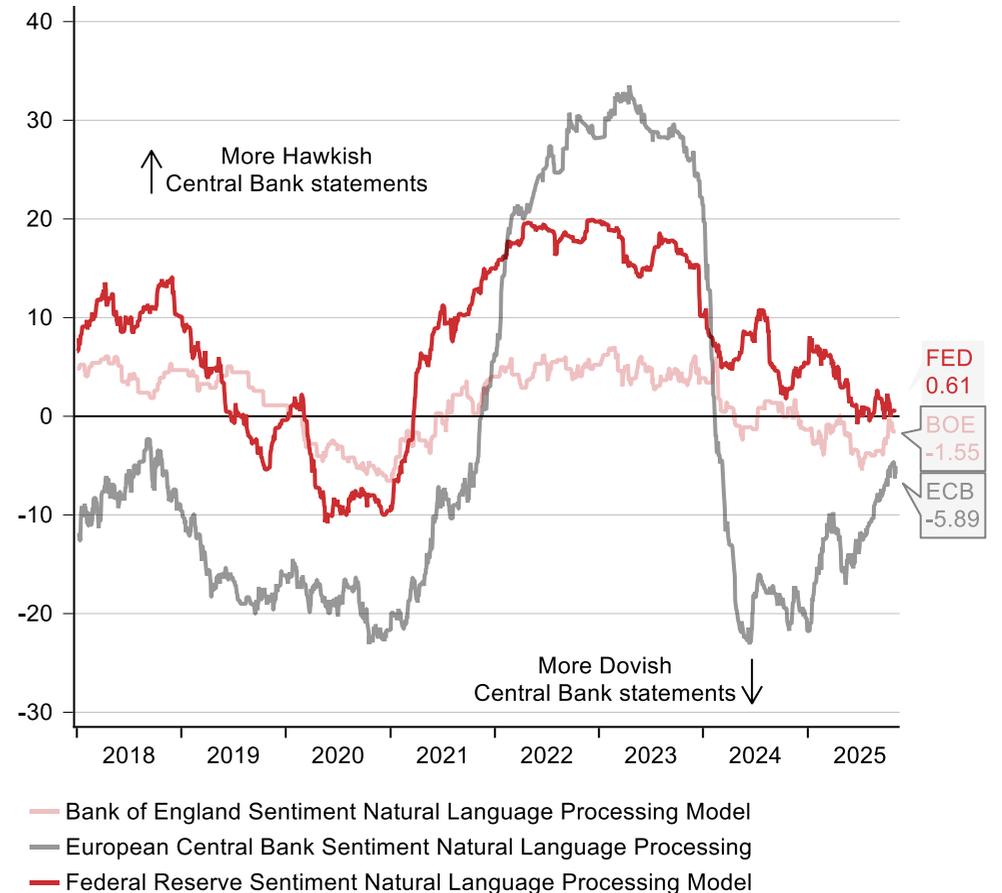
Should the Fed be cutting right now?

United States: Taylor rules together with Fed Funds and Shadow rate



Fed Speak has been shifting more dovish

Central Bank Sentiment: BBG Econ Natural Language Processing Model



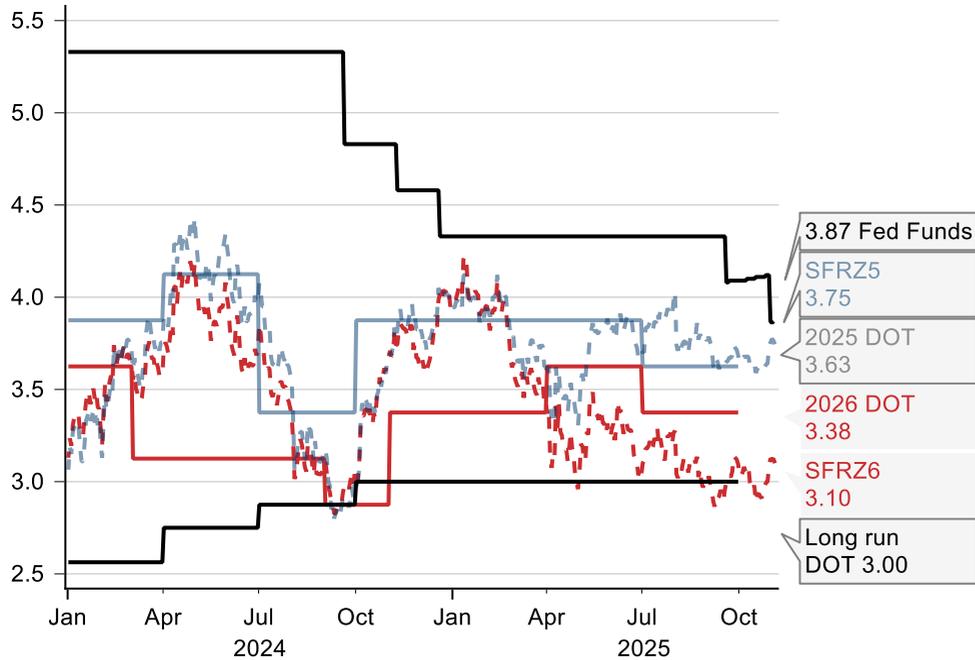


USD STIRT

- Fed pricing is anchored by the DOTs

Fed pricing 2025/26

The market is anchored by the DOTs

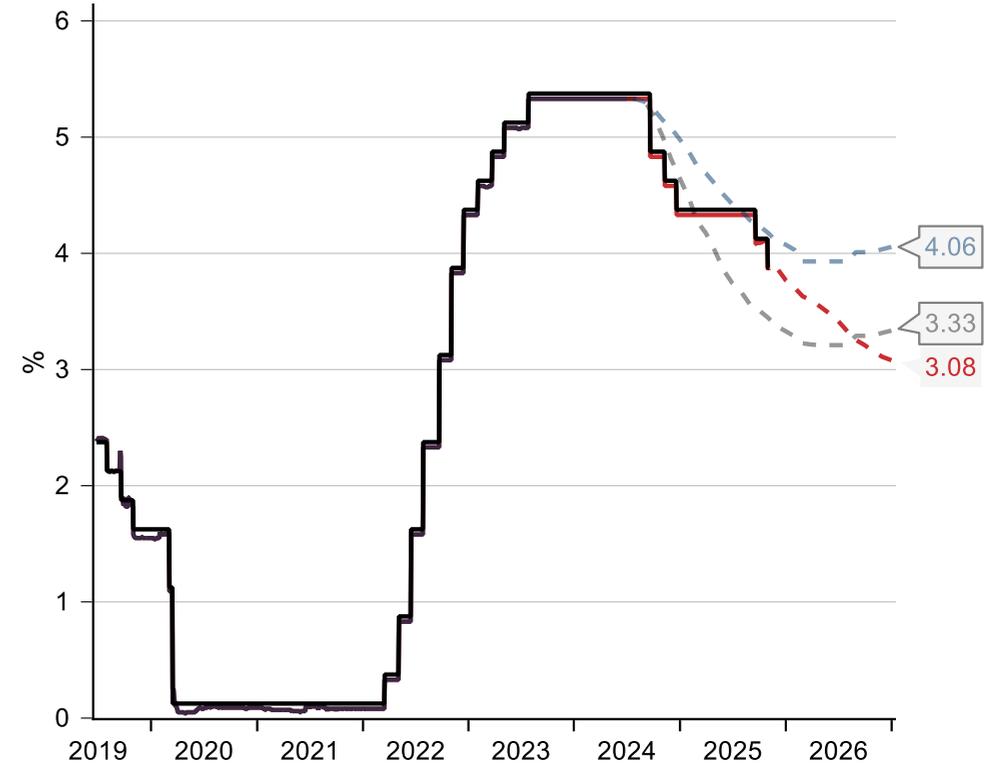


- FOMC DOTS Median of the Longer Run Projections
- - 2025 Dec SOFR
- Fed Funds Effective
- FOMC DOTS Median of 2026 Year End Projection
- FOMC DOTS Median of 2025 Year End Projection
- - 2026 Dec SOFR

Fed policy over time

Market expectations for Fed funds rate

Using 30-day Fed funds futures

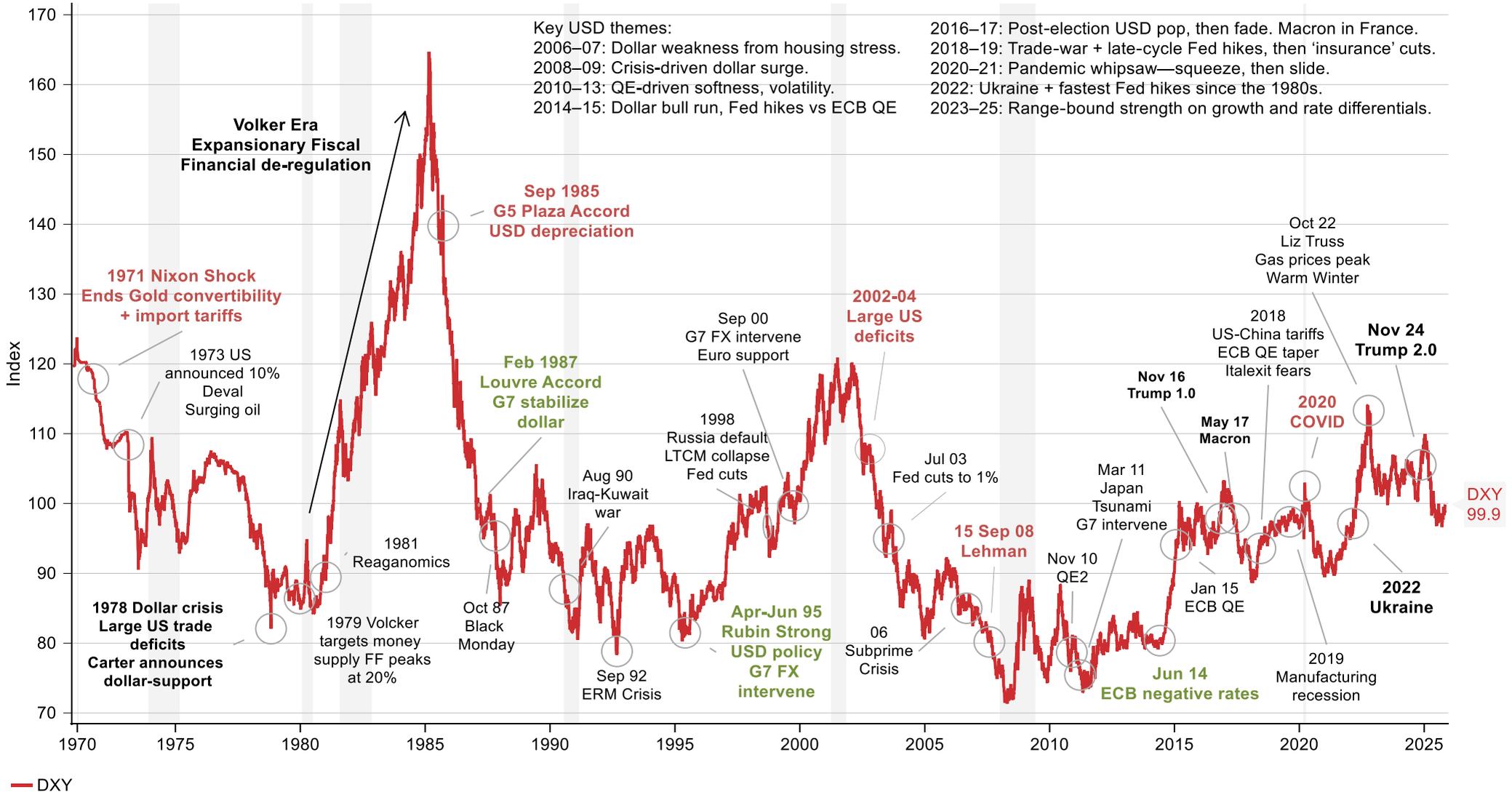


- Fed Funds Target - Mid
- - Start of July
- - Start of August
- - Today



USD – Big moments in Dollar history

DXY and moments in History





USD FX

1. Other markets have been pointing to a weaker USD in recent weeks
2. DXY to sell off in H2 with European fiscal in the pipeline and higher FX hedging flows.

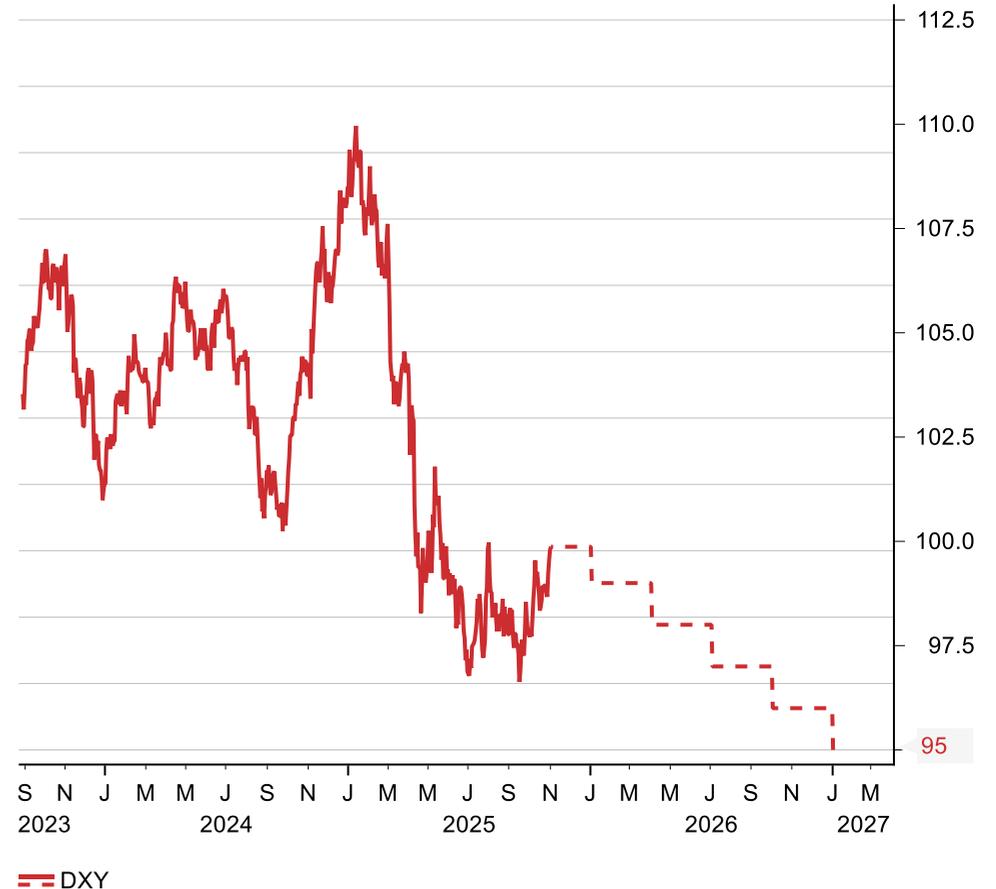
DXY vs multifactor model estimates

DXY fair valuation (2y nominal, 5yr real yield spreads, SPX and Oil)



DXY forecast

Mizuho DXY forecasts



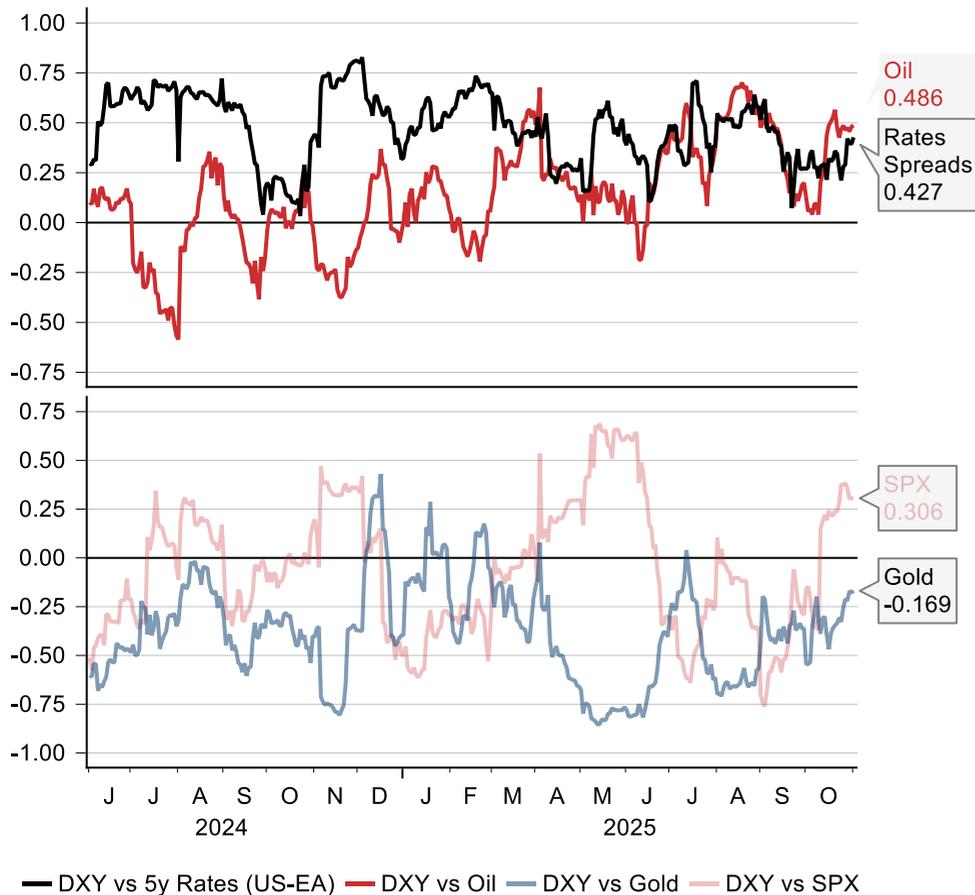


USD FX correlations – Oil in the driver's seat?

1. One month USD correlations argue that oil has been the more consistent driver of the USD recently, is that a Russia-Ukraine story? It also helps we've had risk on sentiment

One-month USD correlations

Dollar Correlations (1month, daily changes %)



Key points on USD correlations

Four reasons why the USD looks more Macro (if you can believe it):

1. Rates spreads matter again.
2. **Terms of trade is back** (oil up = USD up). And more than rates as a driver?
3. **Risk off = USD higher.** USD is a “safe haven” once more.
4. **The “de-dollarization” flows in April/May look to have slowed.** Gold doesn't benefit as much as it did from USD weakness.

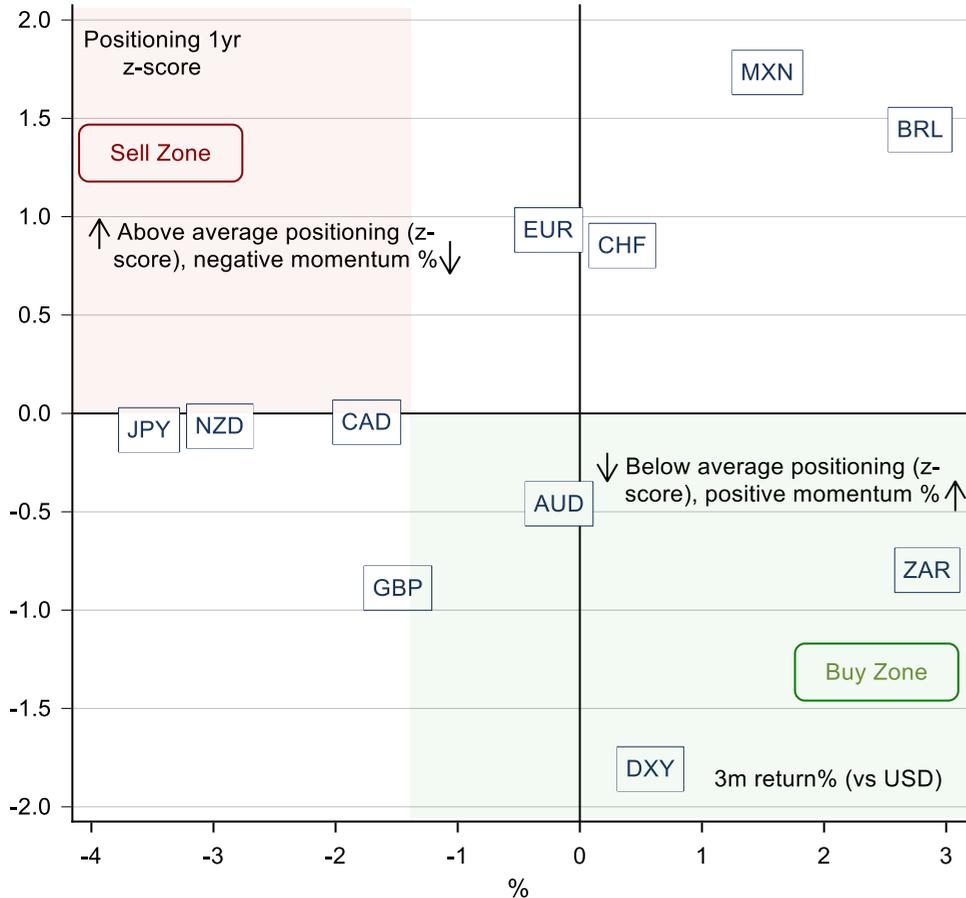


FX Positioning – GBP and AUD in the buy zone, JPY positioning less exposed

- Overall Long JPY positioning remains, but HFs have built up a sizable short position already.

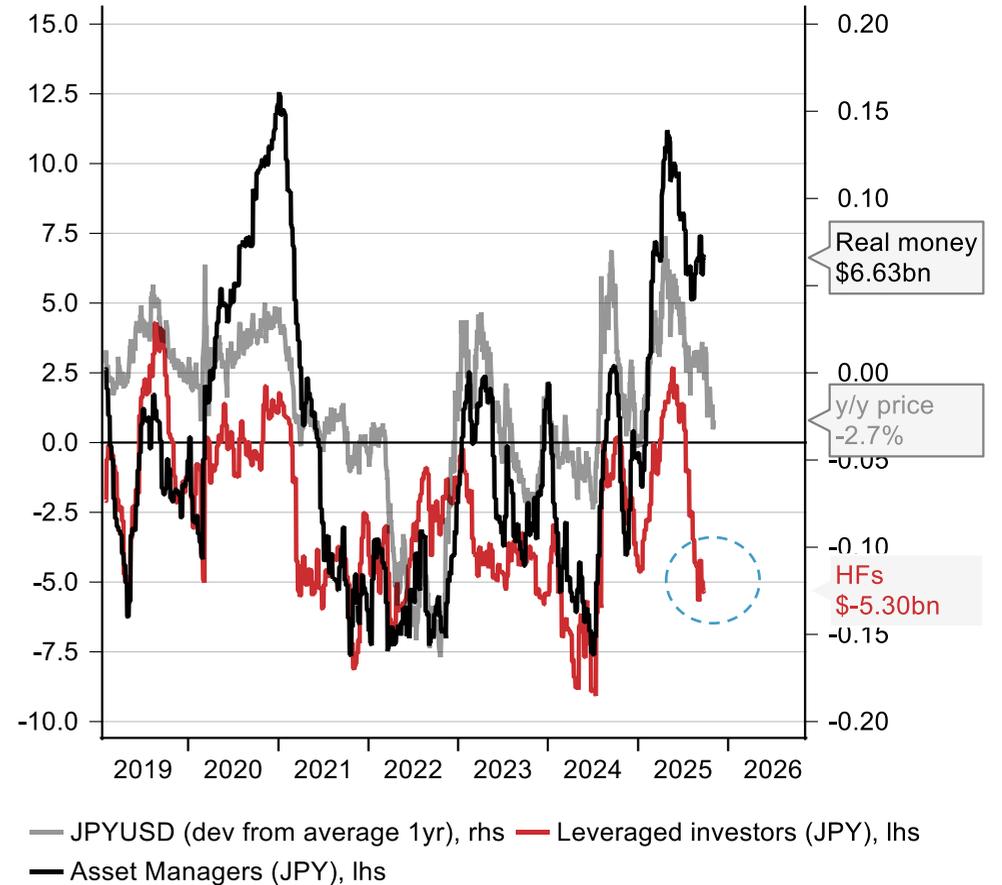
JPY non-commercial net positioning

3m returns vs non-commercial net positioning



Breakdown into hedge funds and real money

Long JPY positioning by types of investor



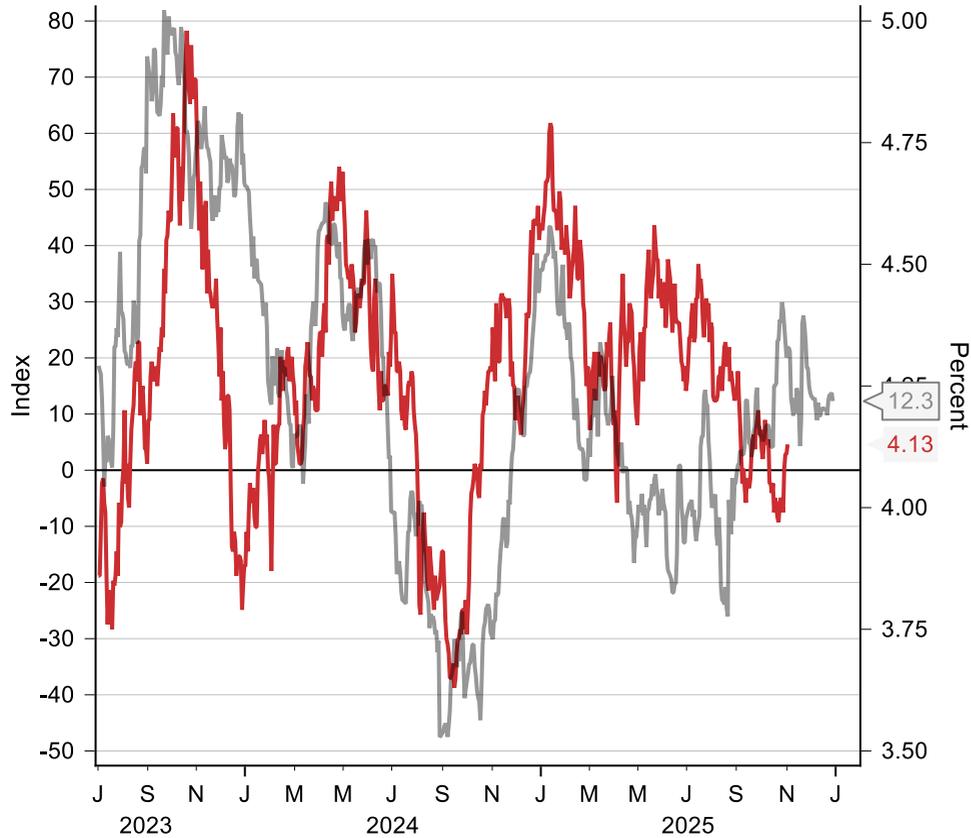


US Rates - Duration

- 10yr vs data surprises
- 10yr vs forwards

US 10y vs US Data surprises

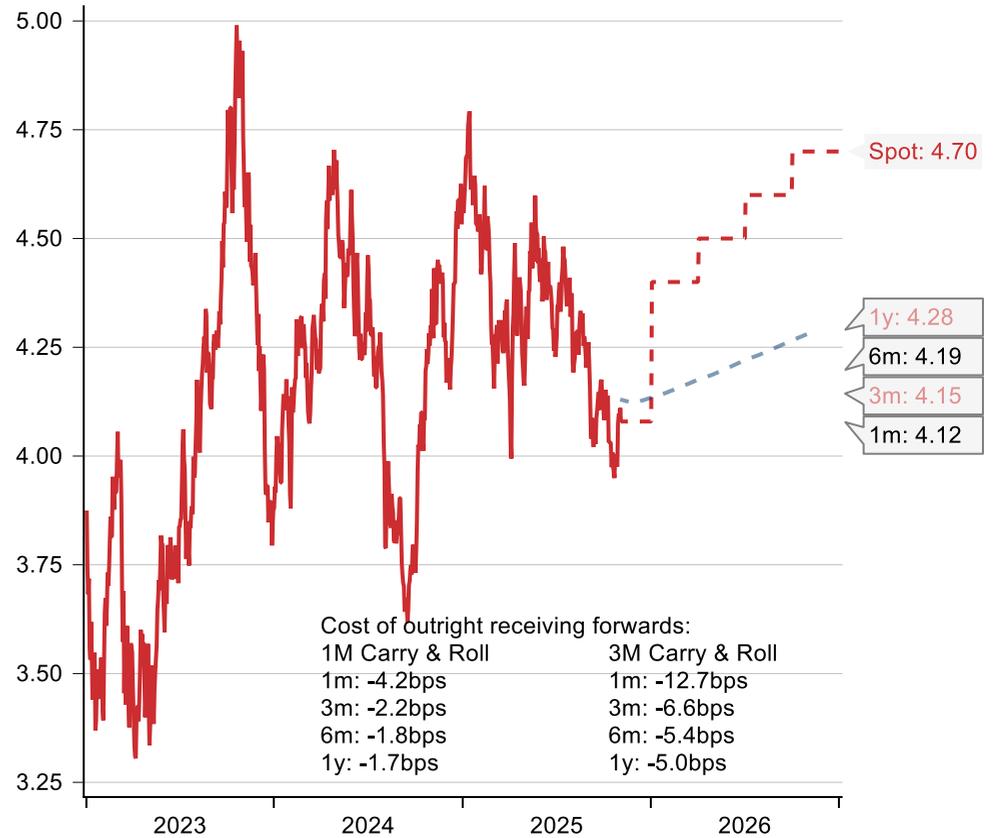
Do data surprises lead US 10yrs?



— US data surprise - Citi, lhs [lag 8 weeks] — US 10yr, rhs

US 10y vs forwards

US 10s vs forwards



Cost of outright receiving forwards:

1M Carry & Roll	3M Carry & Roll
1m: -4.2bps	1m: -12.7bps
3m: -2.2bps	3m: -6.6bps
6m: -1.8bps	6m: -5.4bps
1y: -1.7bps	1y: -5.0bps

— Forwards — US 10s

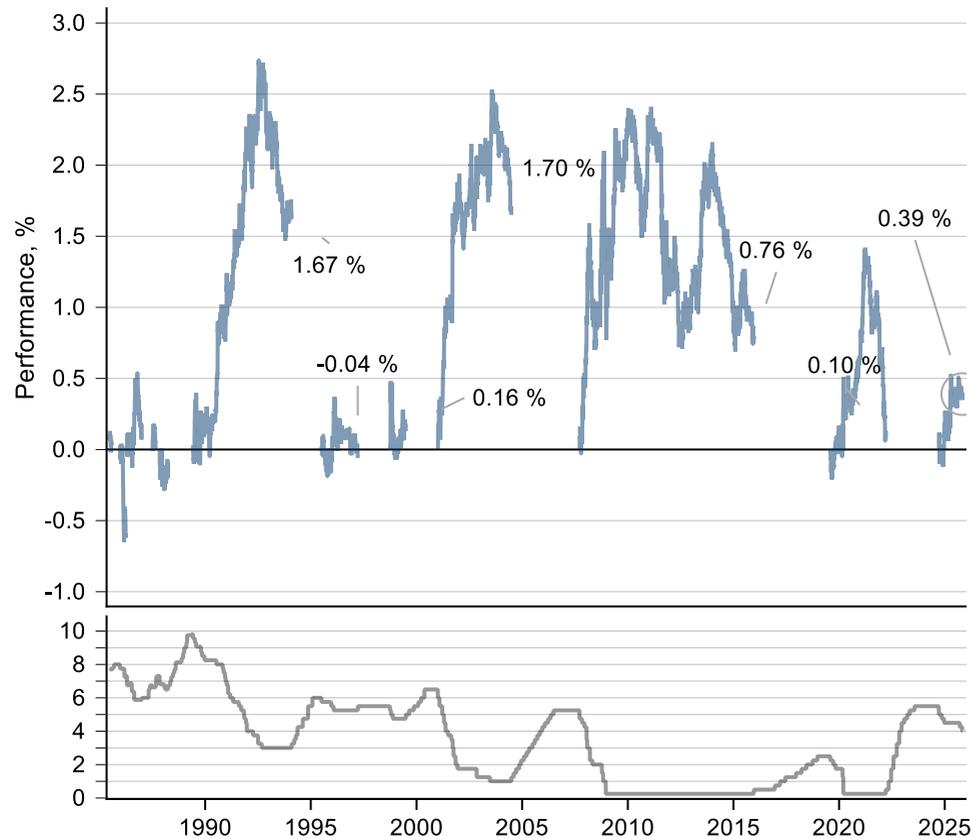


US Rates - Curve

- 2s10s – as cuttings cycles go it's been a mild steepening since the first cut

US 2s10s in cutting cycles

US 2s10s in cutting cycles



— Federal Funds Target Rate

2s10s vs forwards

US 2s10s vs forwards



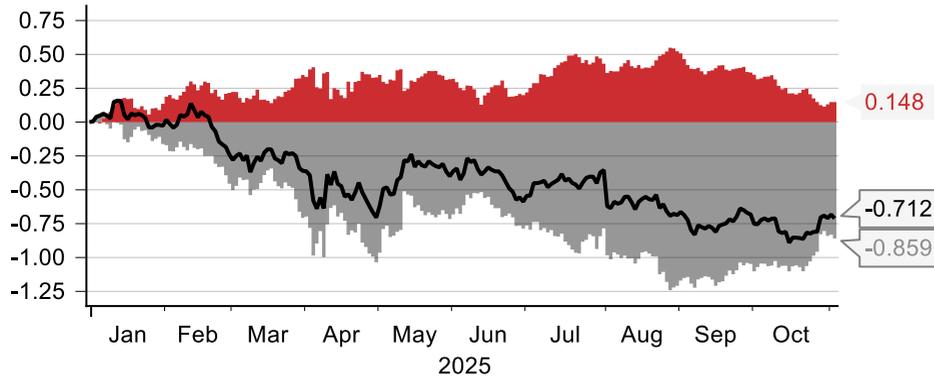
— Forwards — US 2s10s



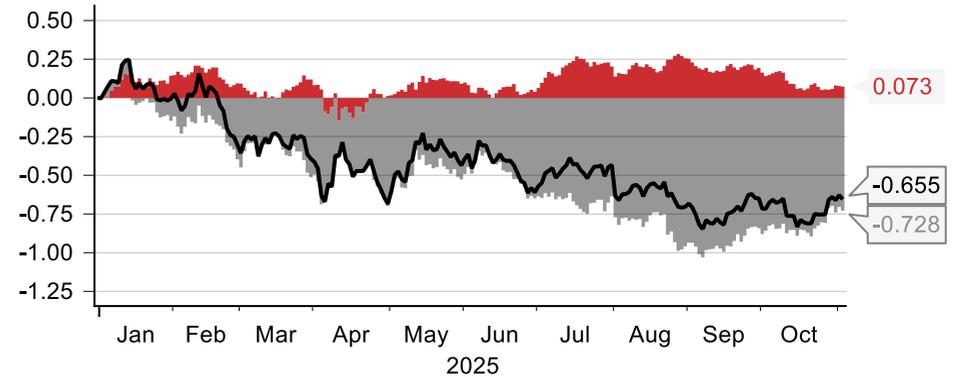
USD rates moves broken down

- Real rates have been in the driver's seat: pricing a recession post Liberation
- Notable inflation premium priced into the front-end is softening – tariffs are not an issue... yet?

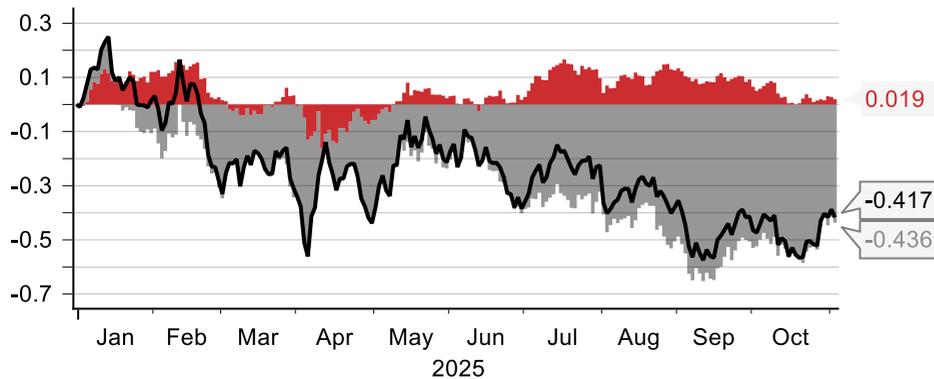
Changes in USD 2yr split into real vs inflation expectations



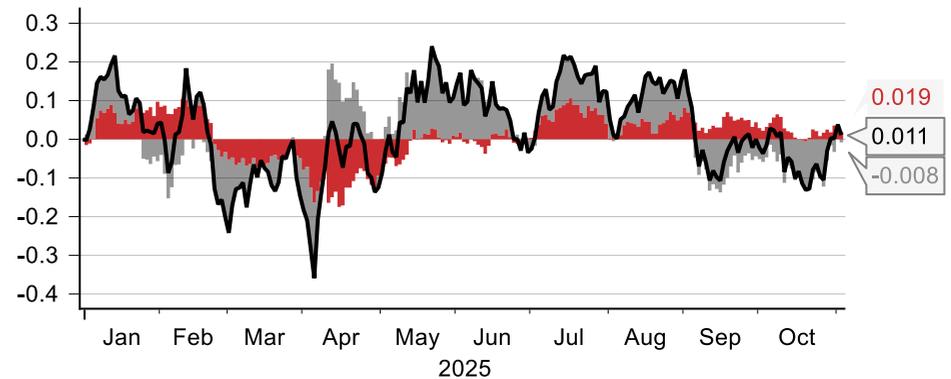
Changes in USD 5yr split into real vs inflation expectations



Changes in USD 10yr split into real vs inflation expectations



Changes in USD 30yr split into real vs inflation expectations



EUR

Event Risks ahead (Euro Area)

Timeline of risk events:

November 2025

- **5 Nov:** Germany Factory Orders
- **5 Nov:** French Industrial Production
- **5 Nov:** European PMIs
- **5 Nov:** Italy Retail Sales
- **6 Nov:** Germany Industrial Production
- **25-28 Nov:** Germany's 2025 budget approval in Bundestag
- **Nov:** Opinion of the European Commission on the Draft Budget Law

December 2025

- **2 Dec:** Inflation Data (Preliminary) Release
- **11 Dec:** Vote on first part of France draft budget law
- **Dec:** Final vote on the France draft budget law
- **18 Dec: ECB Meeting**
- **18-19 Dec:** Final European Council meeting of the year
- **19 Dec:** France - Decrees to keep spending levels into next year (article 47)

Rating reviews:

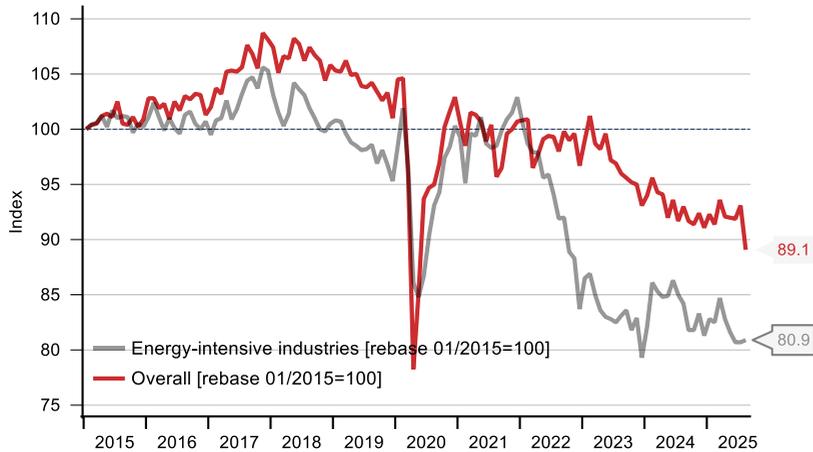
- **7 Nov:** Germany (Moody's) rating review
- **21 Nov:** Italy (Moody's) rating review
- **5 Dec:** Germany (S&P) rating review



EUR – Four points on growth, surveys are optimistic but hard data less so

1) Germany's **fiscal stimulus has yet to show up in the data**, with industrial production still in decline and 2) **manufacturing employment down 2.1% this year**. 3) But rising PMIs support the ECB's growth outlook—explaining why only 1bps of rate cuts are priced by December. 4) But **sentiment indicators are mixed with ZEWs and Sentix lower than the PMI would imply**, raising the question: *could Merz's post-election fiscal optimism be overshadowed by entrenched negative trends?*

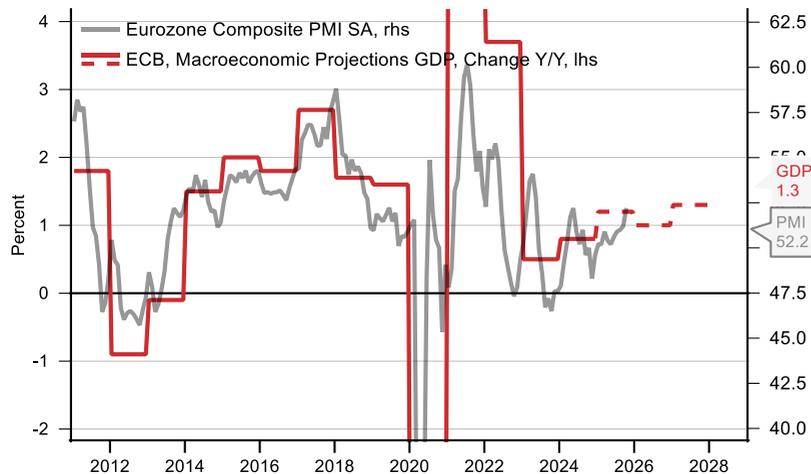
Higher energy costs strike a blow to German industry



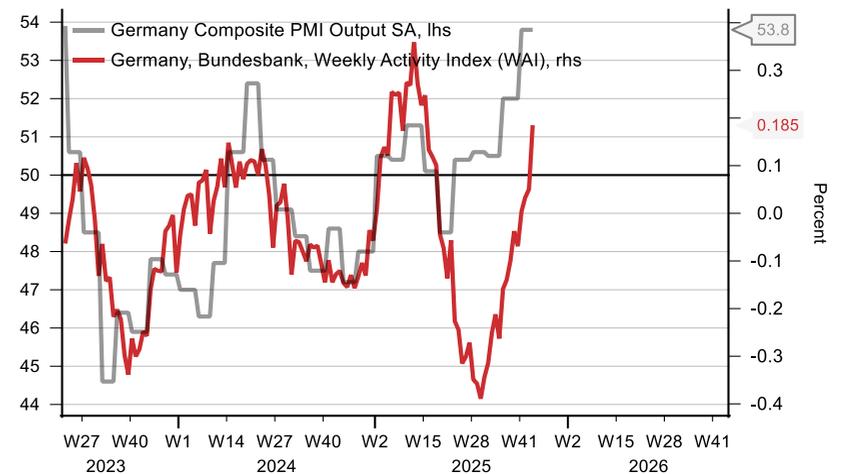
Germany, Employment



ECB GDP forecasts vs PMI



German Bundesbank Weekly Activity Indicator vs PMI





EUR Inflation – goods inflation rebounding the risk, but on track to grind lower

1. Euro CPI is expected to cool then rebound. The near-term risk is goods inflation momentum.
2. Core is expected to grind lower and so far has come in line.

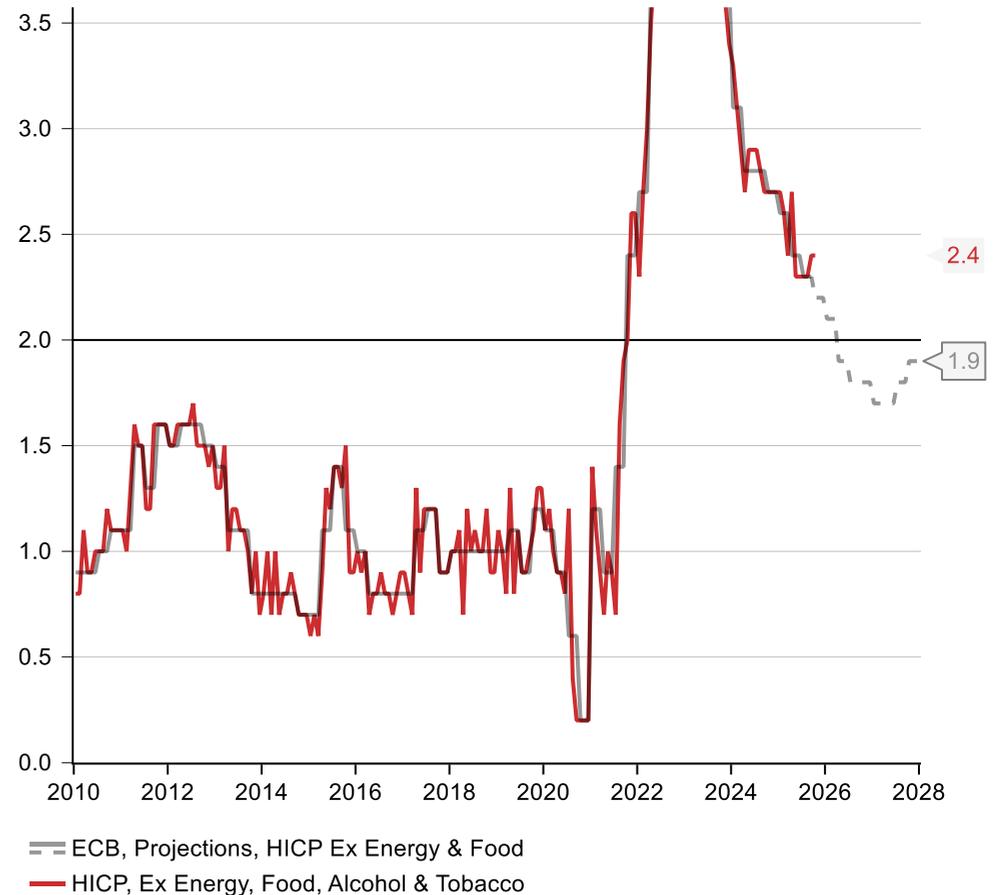
ECB headline CPI forecasts

ECB Headline CPI forecasts



ECB Core CPI forecasts

ECB Core CPI forecasts



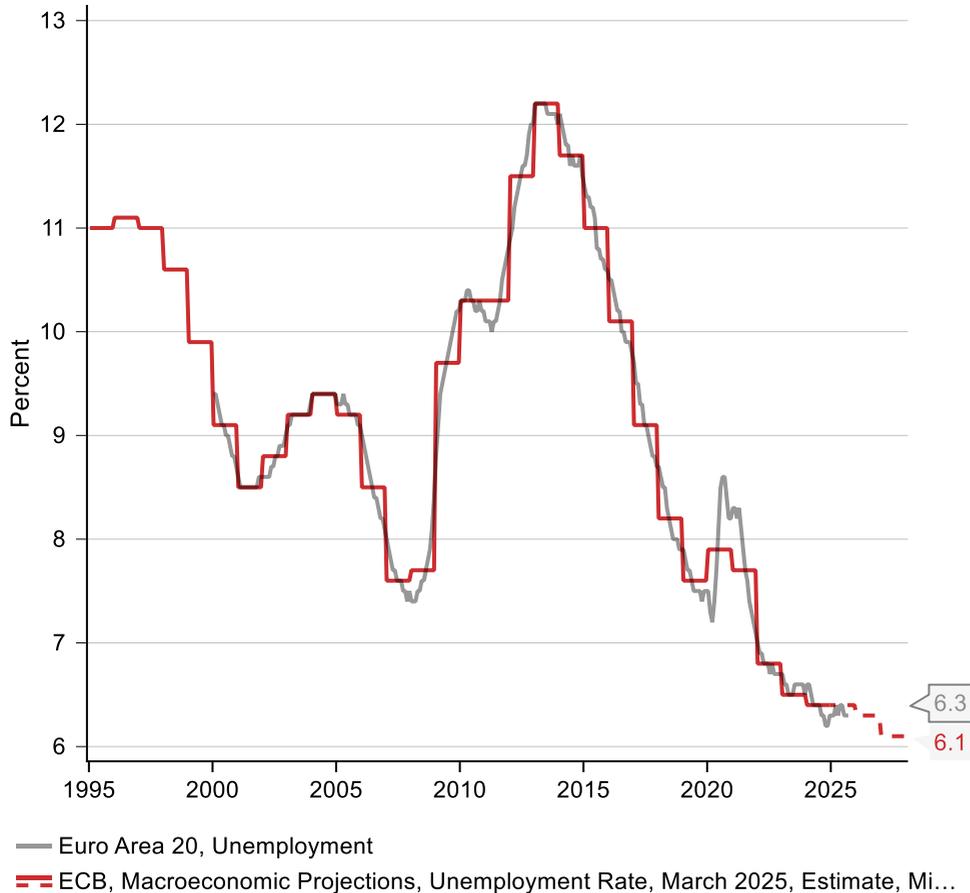


EUR Labour markets – healthy but wages are slowing down quickly

1. Falling unemployment has helped the ECB outlook
2. But negotiated wages have slowed sharply, could services inflation come off the boil?

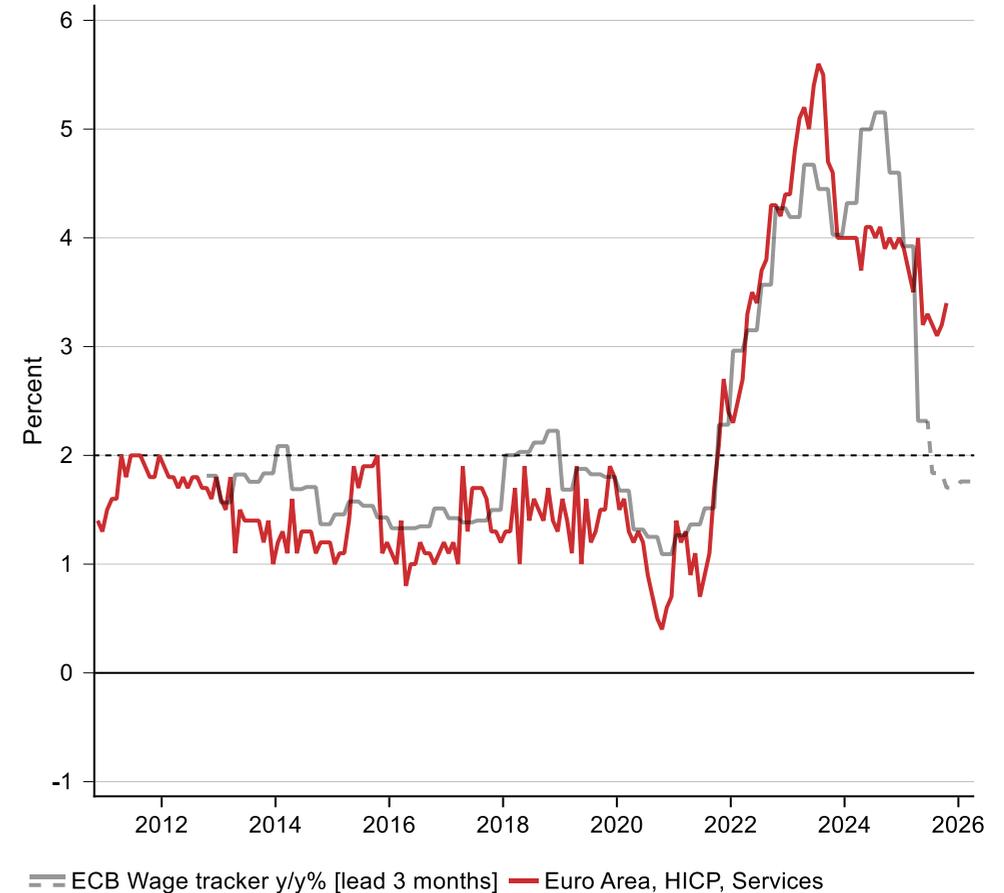
ECB unemployment forecasts

ECB unemployment forecasts



Slowing Wages to cool off Services inflation?

ECB wage tracker leads Services CPI



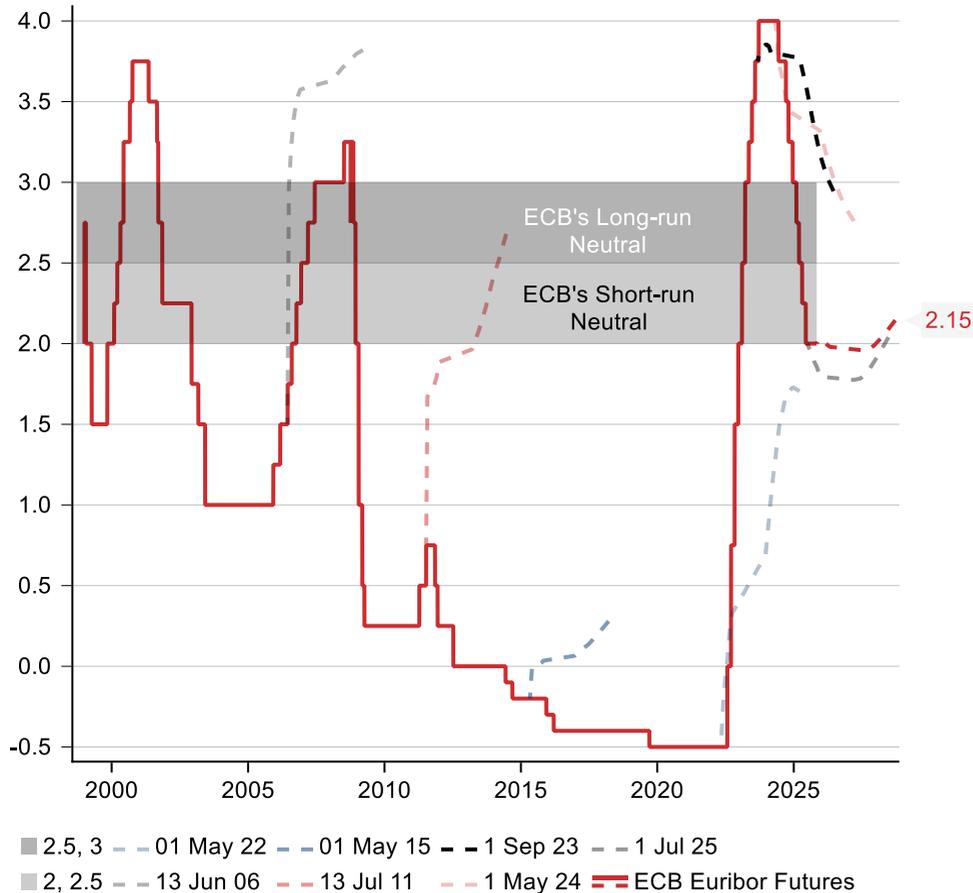


EUR STIRT – Terminal rate pricing

- ECB Policy over time, market pricing and ECB estimates of the neutral rate
- Is the ECB loose already?

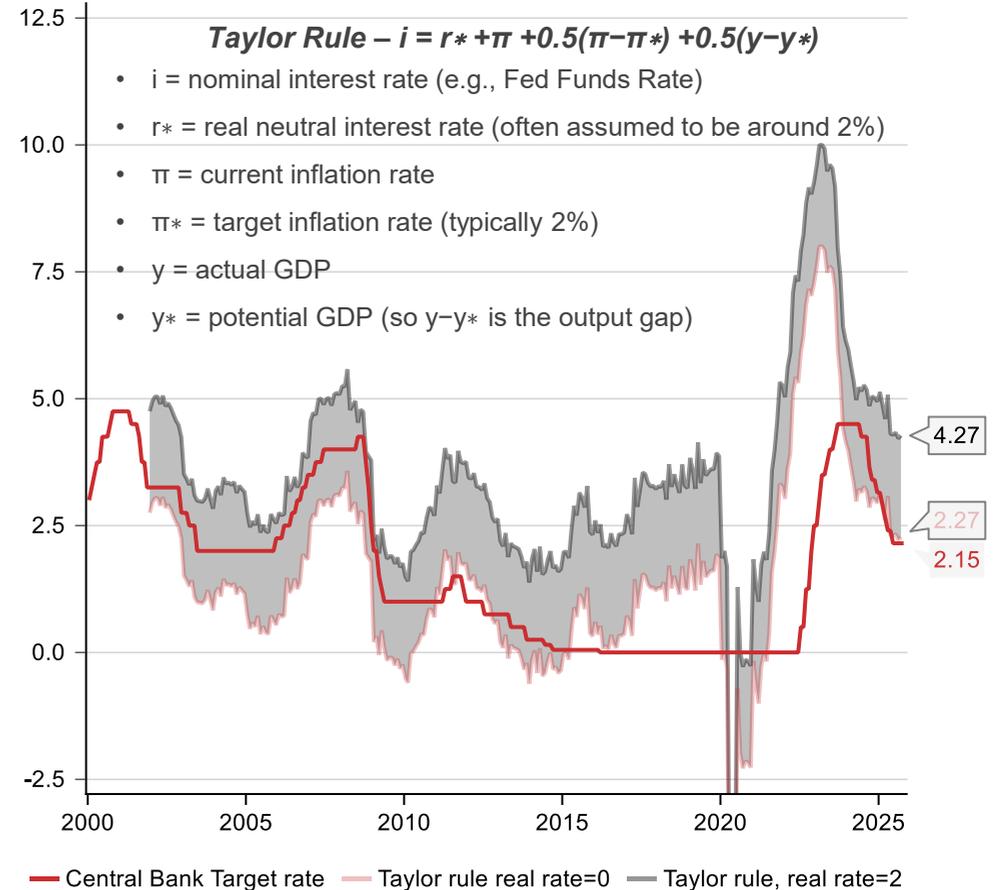
ESTR futures pricing by Dec 2025

ECB Policy and curve pricing



Taylor Rule estimates for the ECB

Euro Area: Taylor Rule





EUR STIRT

- ECB pricing in 2025 and 2026
- ECB terminal rate proxies have been largely sideways

ESTR futures pricing by Dec 2025

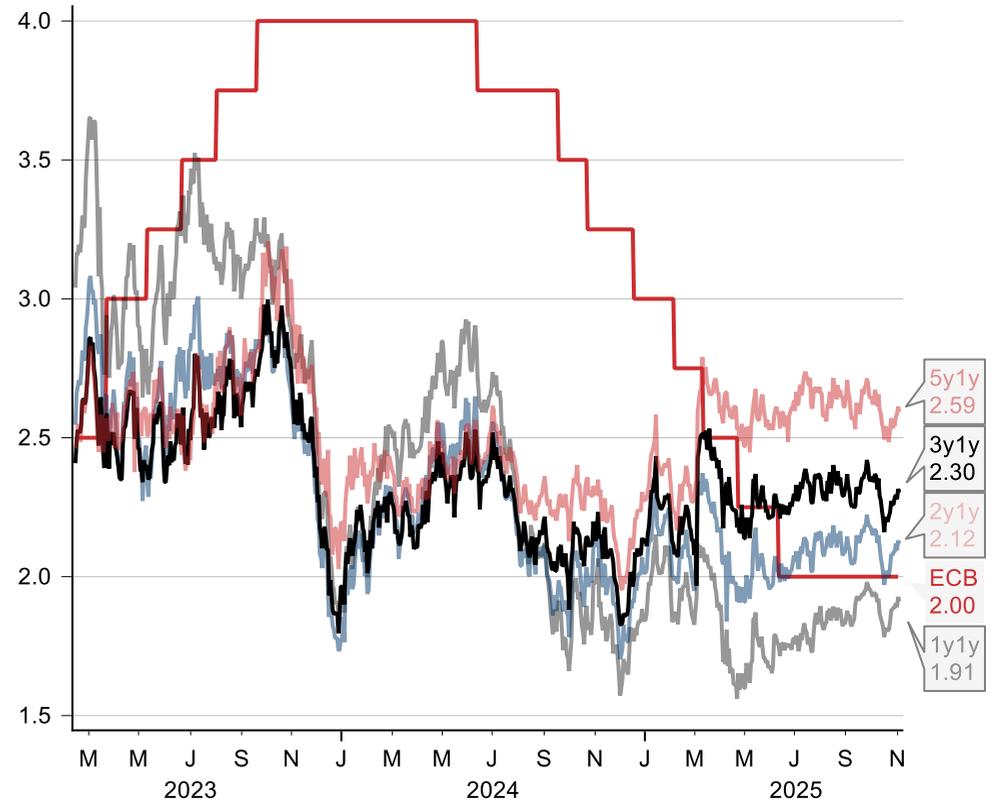
ESTR futures pricing by Dec 2025



■ ESTR ON
 ■ Three Month ESTR Dec26
 ■ Easing priced by Dec25
 ■ Easing priced by Dec26
 ■ Three Month ESTR Dec25

1y1y pricing vs the ECB

ECB pricing terminal rate proxy pricing across time



■ ESTR 5y1y ■ Euro Area, Deposit Facility
 ■ ESTR 3y1y ■ ESTR 2y1y
 ■ ECB 2.00
 ■ ESTR 1y1y

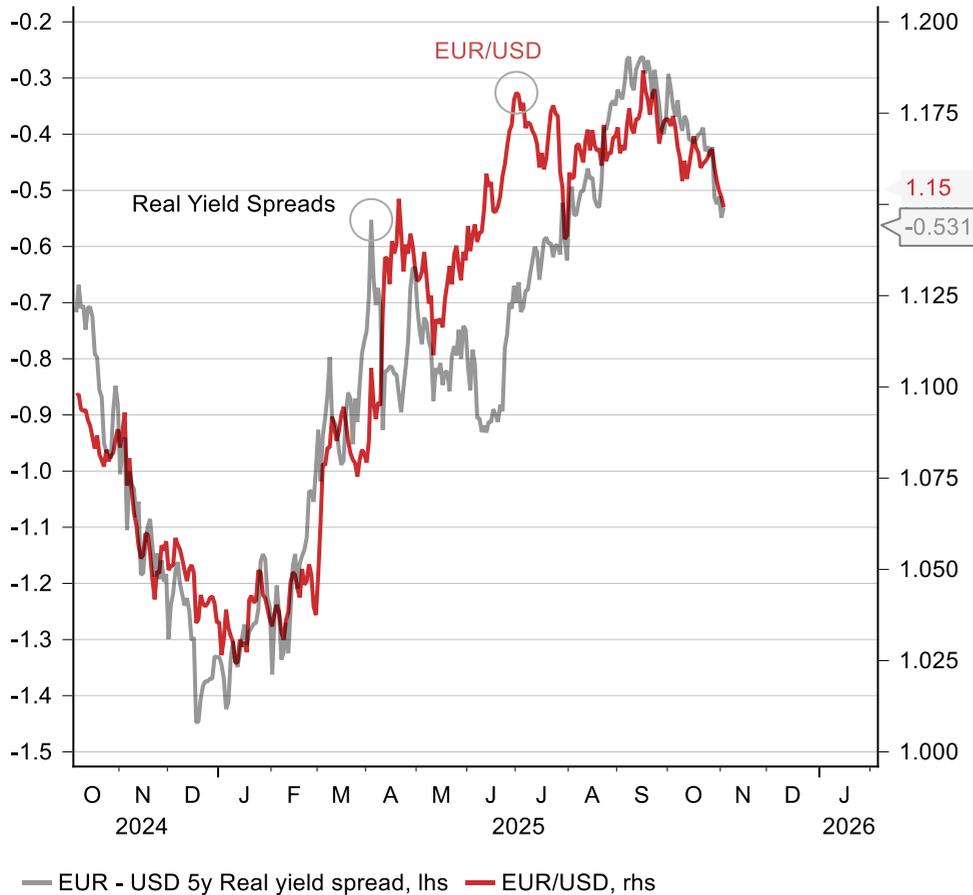


EUR/USD – Rates, equities and history point to higher

1. The USD vs Rates correlation can be fickle but real yields point to 1.18 in EUR/USD
2. After a pullback, EUR looks set to continue it's 2017 playbook to 1.20-1.25?

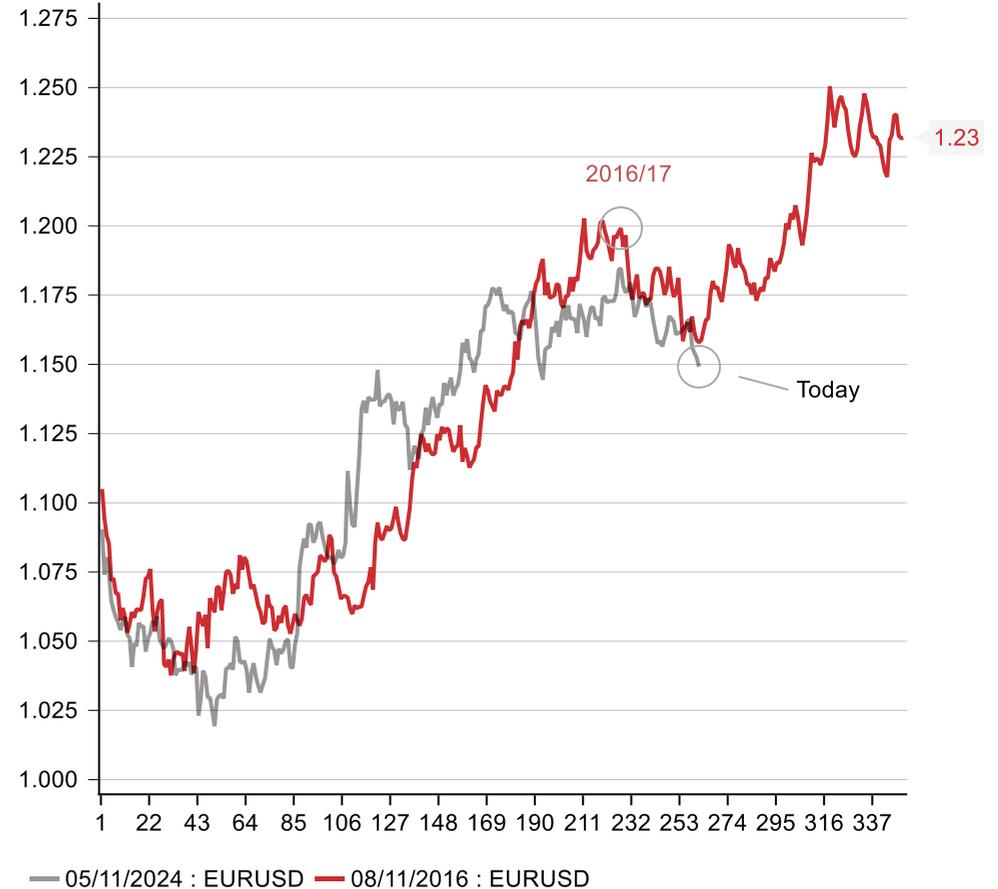
Real yields pro

EUR vs 5yr Real yields



It's likely the 2016/17 playbook is being used by the market

EUR/USD in 2016/17 vs today





MEGA not MAGA remains a strong equity theme in the bank space

1. Make Europe Great Again - European Equities continue to outperform US (but they are catching up).
2. Banks have been the clear outperformer recently, Defence has been sideways of late

MEGA not MAGA

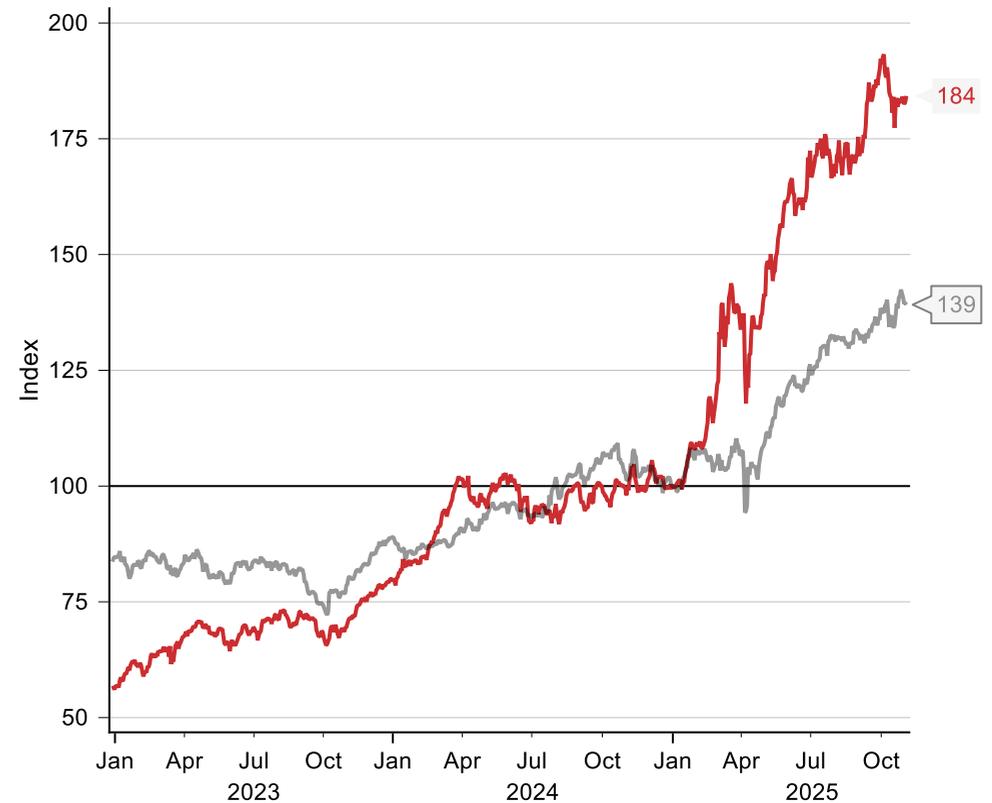
"MEGA not MAGA" European equities vs US YTD



— United States, S&P, 500, Banks, Index, Price Return, USD — S&P 500
— SX7E-Euro Banks — DAX
— Europe, STOXX, 600

And a relative defence trade too

US vs Europe, Aerospace & Defence (2024=100) in USD



— United States, S&P, 500, Aerospace & Defense, Index
— Europe, STOXX, Aerospace & Defense, TMI, Index

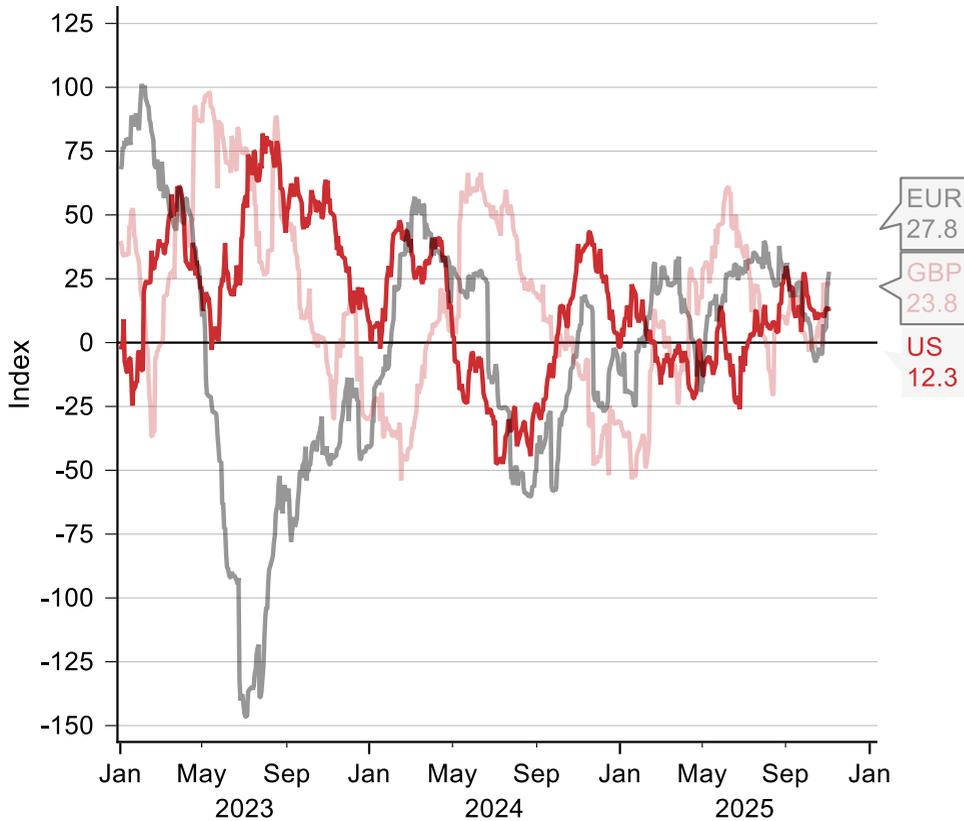


But the EUR narrative faces lower data surprises and already high FX hedges?

1. European data surprises are in decline after a period of outperformance
2. Is the FX hedging narrative over for USD weakness? Danish real money didn't add to hedges in June.

Data surprises

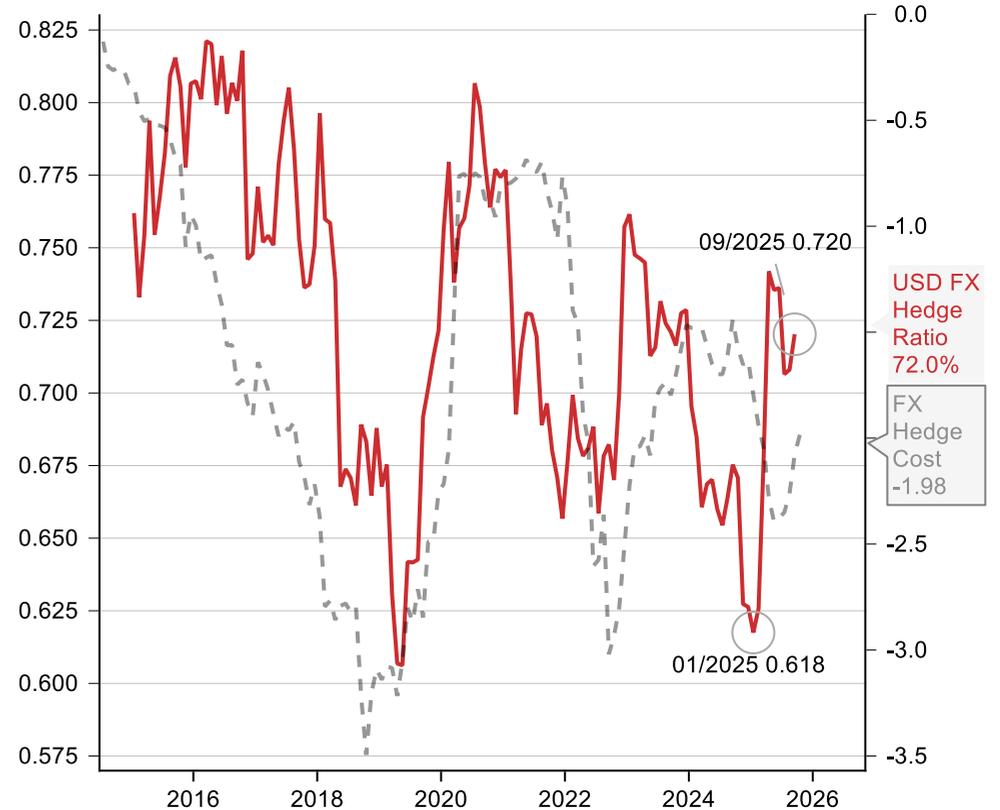
Leading Indicators, Citi, Economic Surprise Indices



— United Kingdom — Euro Area — United States

Danish USD FX hedges shot higher in April but have been flat since

Danish Insurance Companies and Pension Fund USD exposure



— Bloomberg EURUSD 3 Month Hedging Cost, rhs
 — Denmark, Insurance Companies & Pensions Funds, USD Hedging ratio%, lhs



EUR FX

1. EUR/USD forecasts
2. EUR/JPY forecasts

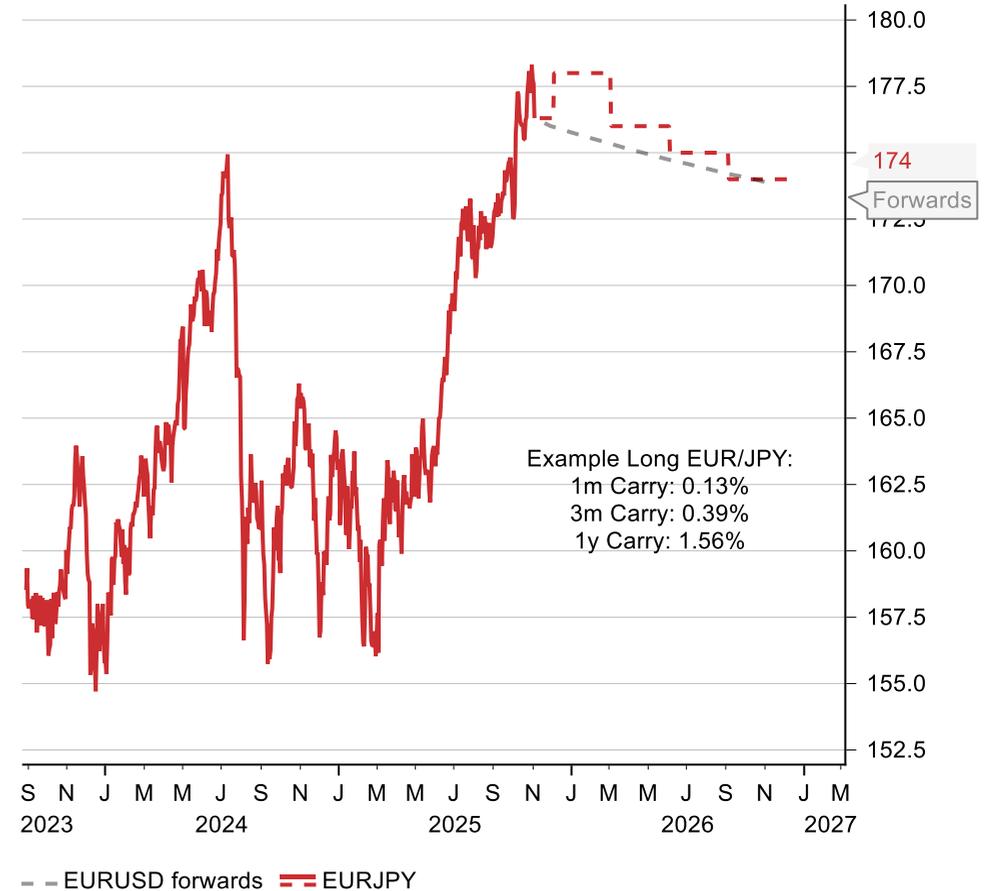
EUR/USD forecasts

Mizuho EUR forecasts, higher spending = EUR up



EUR/JPY forecasts

Mizuho EUR/JPY forecasts



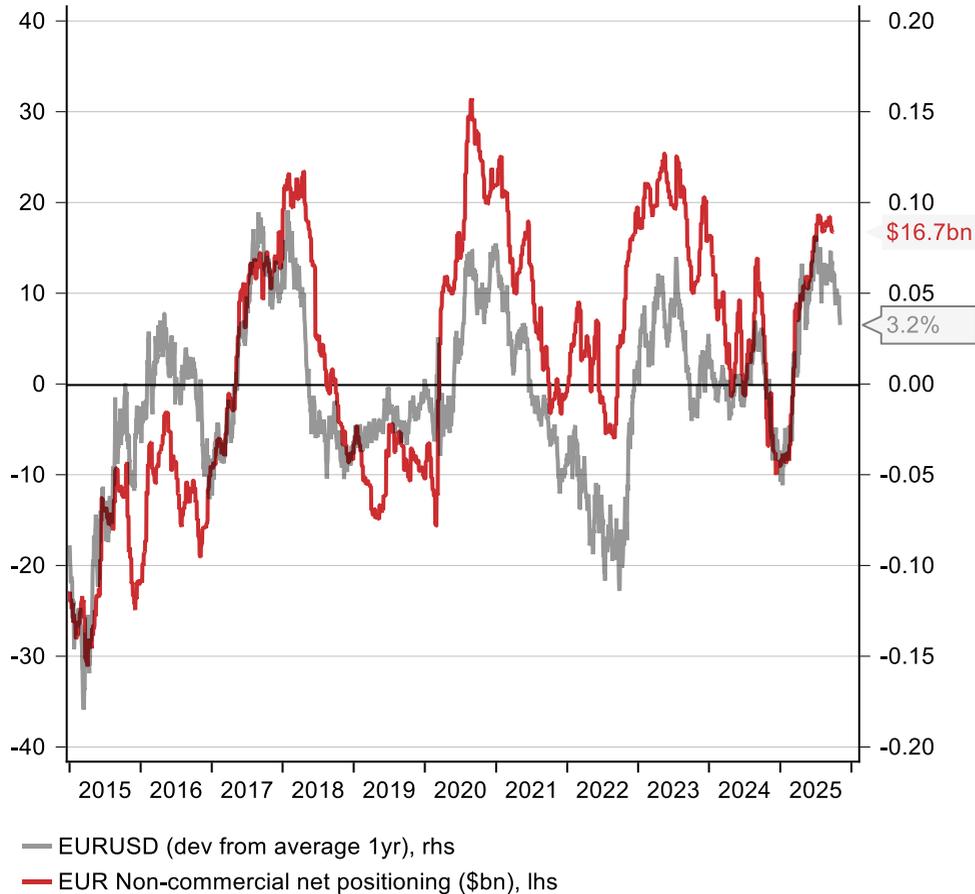


EUR FX

1. EUR FX non-commercial positioning
2. EUR FX positioning by investor type

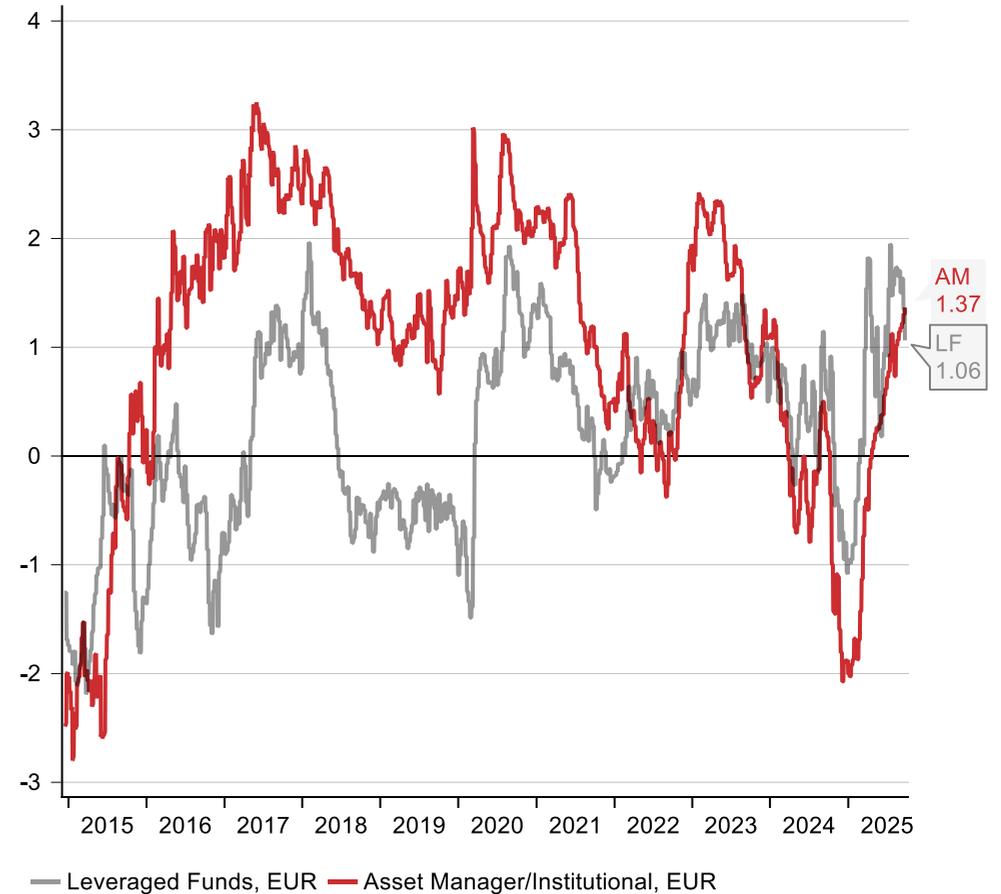
EUR FX Positioning

EURUSD Non-commercial net positioning



EUR positioning by investor type

Net FX positioning by investor type (5yr z-score)



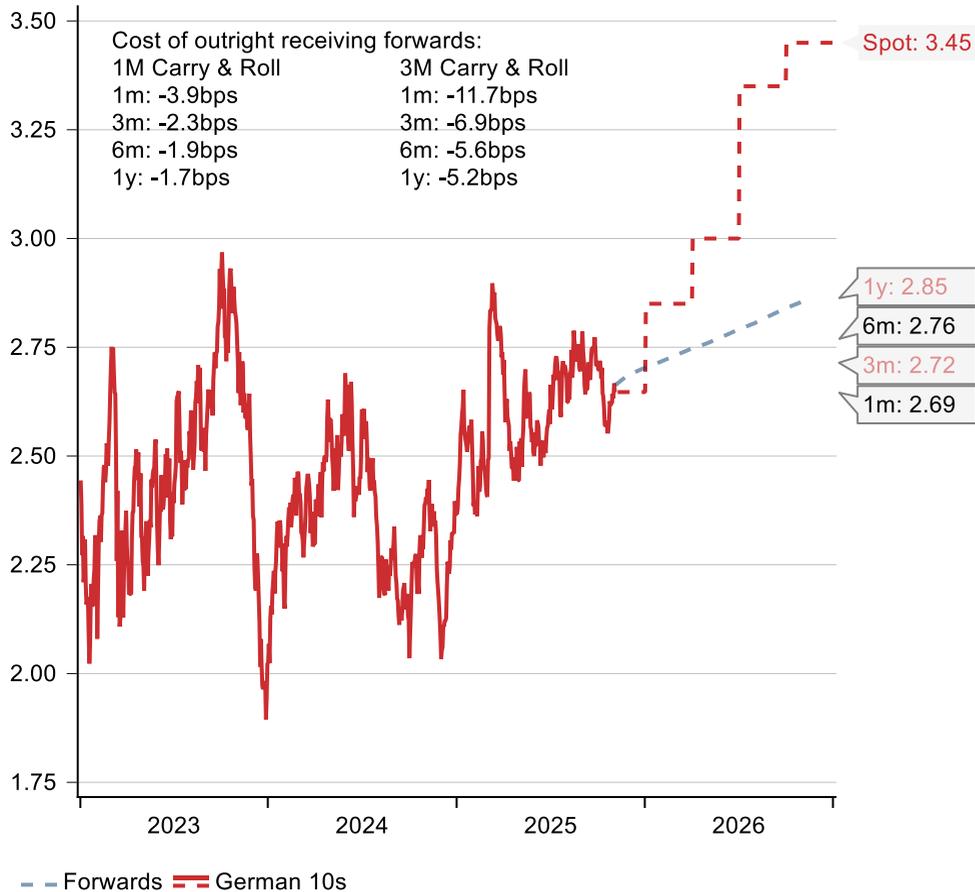


EUR Rates - Duration

1. German 10yr vs forwards
2. 10yr UST-Bund spreads vs forwards

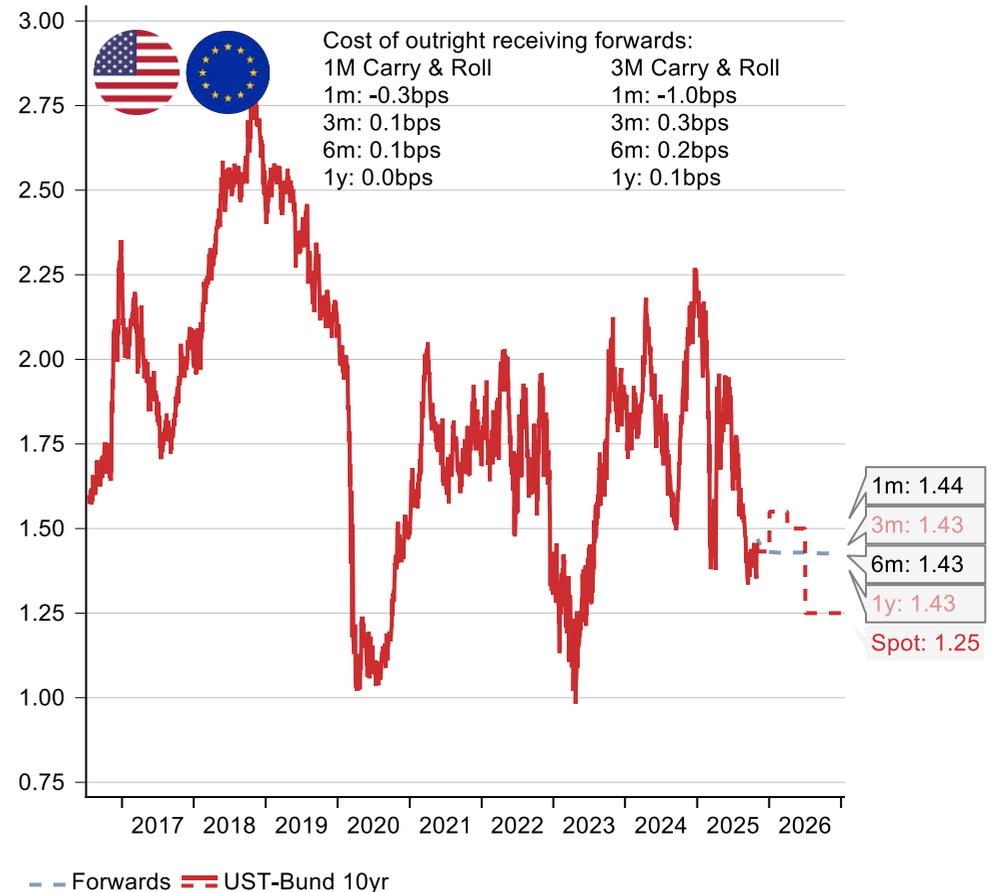
10yr Bunds

Germany 10s vs forwards



UST-Bund 10yr spread

UST-Bund 10yr spread vs forwards and forecasts



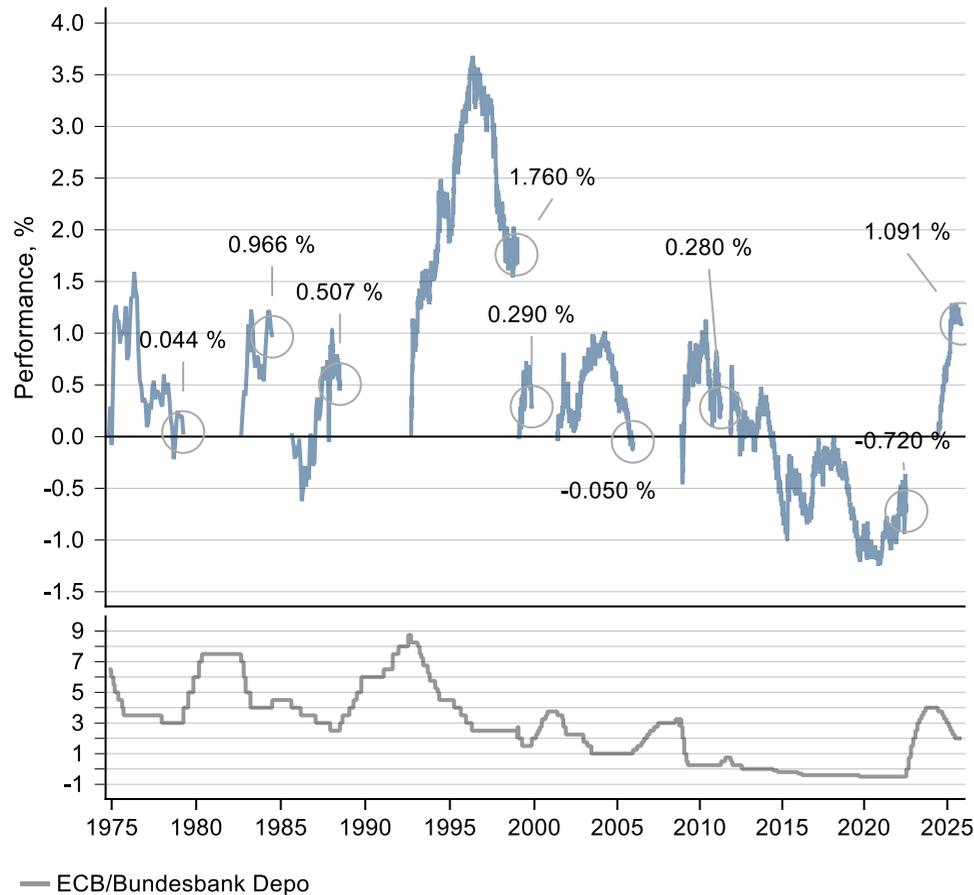


EUR Rates - Curve

1. German 2s10s in cutting cycles
2. German 2s10s vs forwards

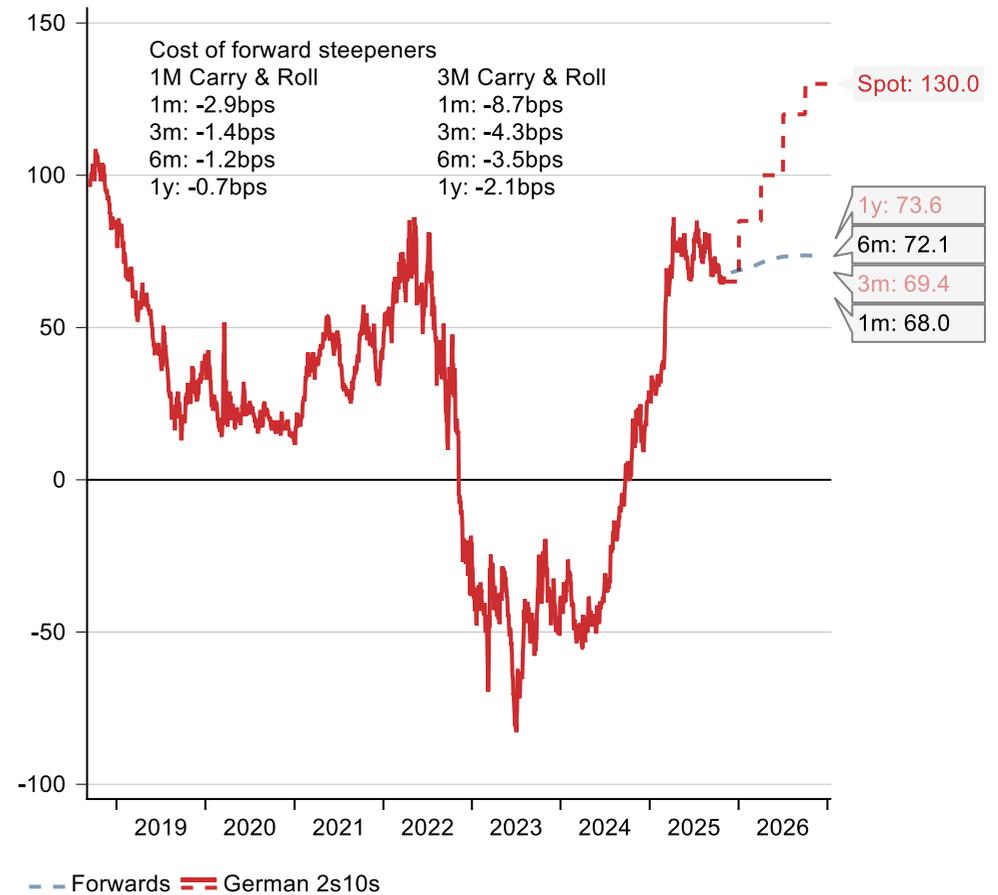
10yr Bunds

German 2s10s in cutting cycles



German 2s10s vs forwards

Bund 2s10s vs forwards

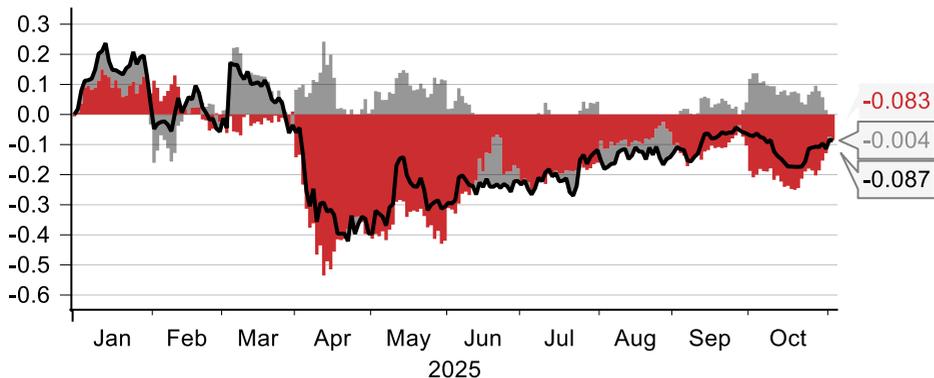




EUR rates moves broken down

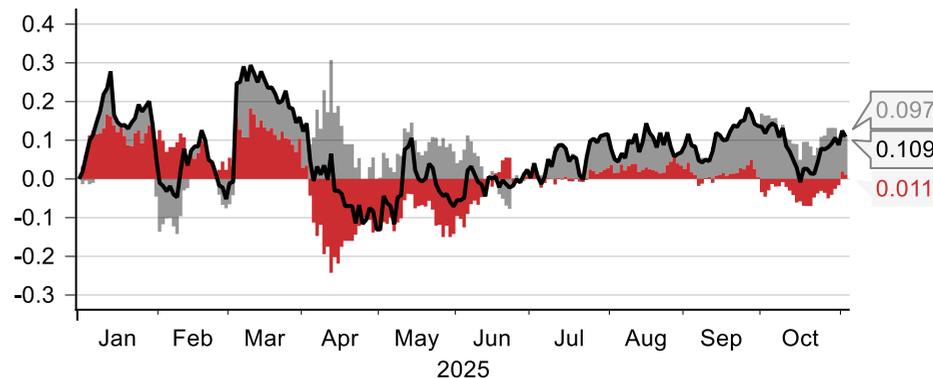
- The post Liberation Day bid in the front-end has been fading and real rates are pushing yields higher. The ECB is in a “wait-and-see” stance, which keeps inflation under control.
- The rise in long-term real yields is based on two key structural themes: the German bazooka story and Dutch pension reform.

Changes in EUR 2yr split into real vs inflation expectations



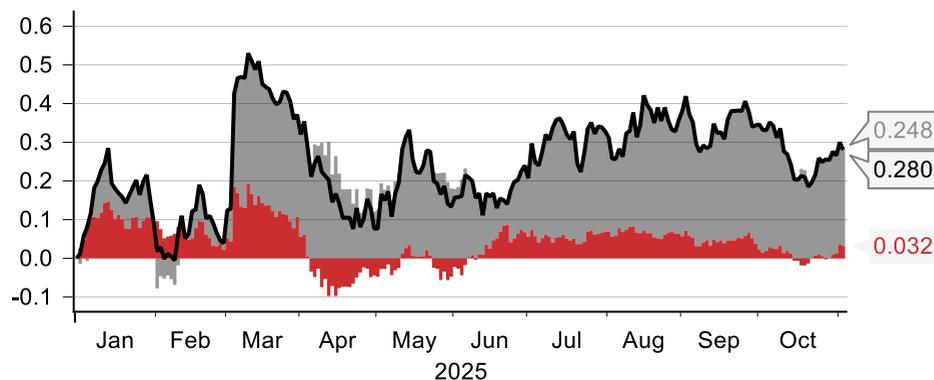
— EUR Nominal 2yr moves ■ EUR Real yield ■ EUR Inflation 2yr

Changes in EUR 5yr split into real vs inflation expectations



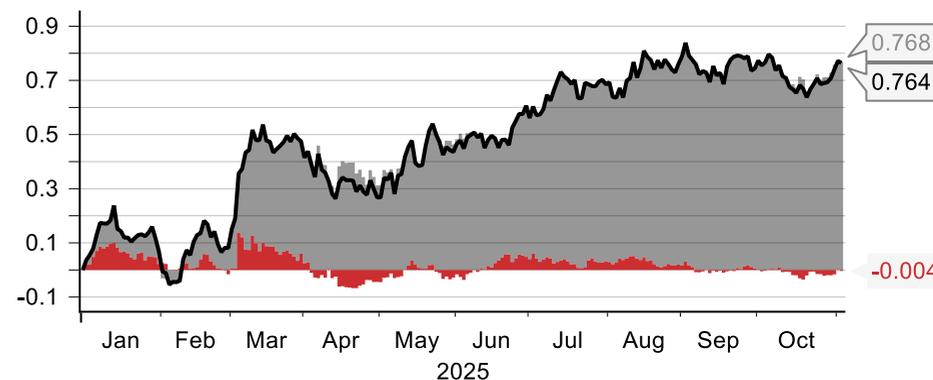
— EUR Nominal 5yr moves (Euribor) ■ EUR Real yield ■ EUR Inflation 5yr

Changes in EUR 10yr split into real vs inflation expectations



— EUR Nominal 10yr moves ■ EUR Real yield ■ EUR Inflation 10yr

Changes in EUR 30yr split into real vs inflation expectations



— EUR Nominal 30yr moves (Euribor) ■ EUR Real yield ■ EUR Inflation 30yr

GBP

Event Risks ahead (UK)

Timeline of risk events:

November 2025

- **06 Nov: BOE Monetary Policy Report Summary, Minutes and policy decision at 12:00 GMT**
- **06 Nov:** BOE Decision Maker Panel data (Oct) at 14:00 GMT
- **10 Nov:** OBR Forecast Round 4
- **11 Nov:** Labour market data release at 07:00 GMT
- **19 Nov:** Inflation data release (Oct) at 07:00 GMT
- **21 Nov:** S&P Global flash PMI release (Nov) at 09:30 GMT, OBR Forecast Round 5
- **26 Nov:** Chancellor Reeves to deliver Budget to parliament (12:30 GMT). DMO likely to release revised remit and OBR EFO published.
- **26 Nov:** DMO to publish consultation agenda (15:30 GMT)

December 2025

- **01 Dec:** DMO to hold consultation with investors (15:30 GMT) and GEMMs (17:00 GMT) to discuss FQ4 (Jan-Mar) gilt issuance
- **04 Dec:** BOE Decision Maker Panel data (Nov) at 09:30 GMT
- **05 Dec:** DMO to publish gilt operations calendar for FQ4 (Jan Mar) at 07:30 GMT
- **16 Dec:** Labour market data released at 07:00 GMT / S&P Global flash PMI release (Dec) at 09:30 GMT
- **17 Dec:** Inflation data released (Nov) at 07:00 GMT
- **18 Dec: BOE Monetary Policy Summary and policy decision at 12:00 GMT**

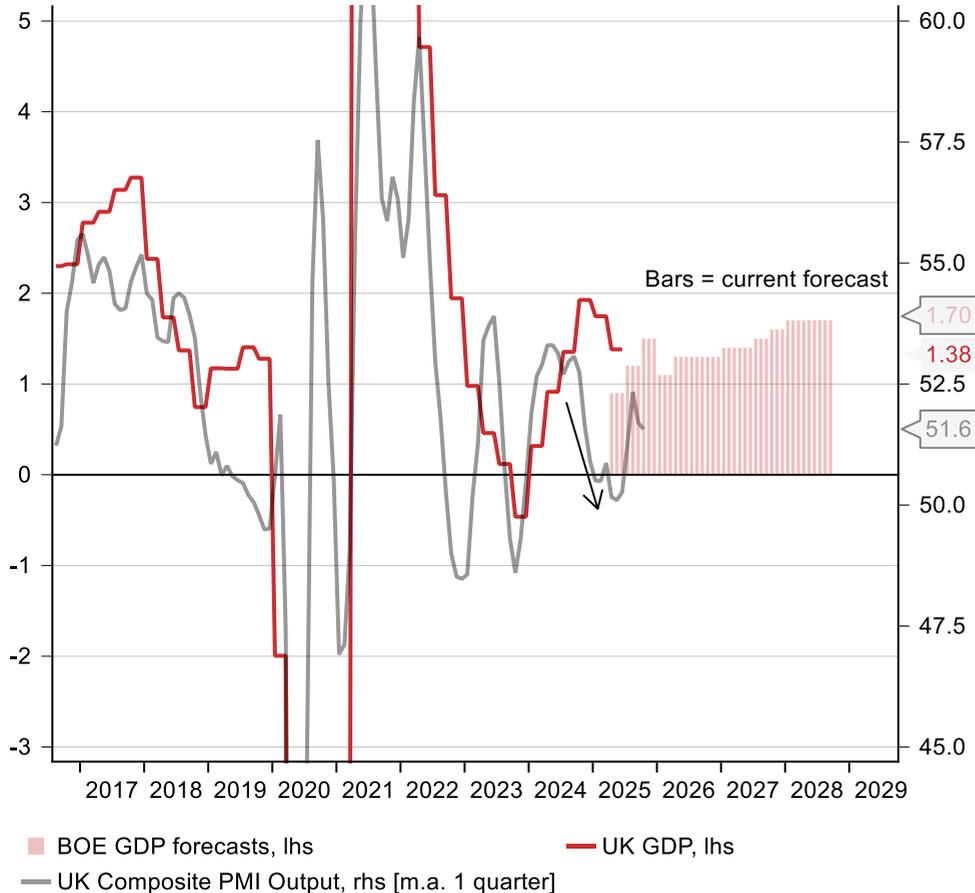


GBP Growth & Inflation – overly optimistic growth, firm inflation in 2025

1. PMIs have rebounded but are the GDP forecasts too optimistic on housing investment (planning reform)?
2. The problem is inflation is expected to edge near 4% before cooling off to 2% in 2027

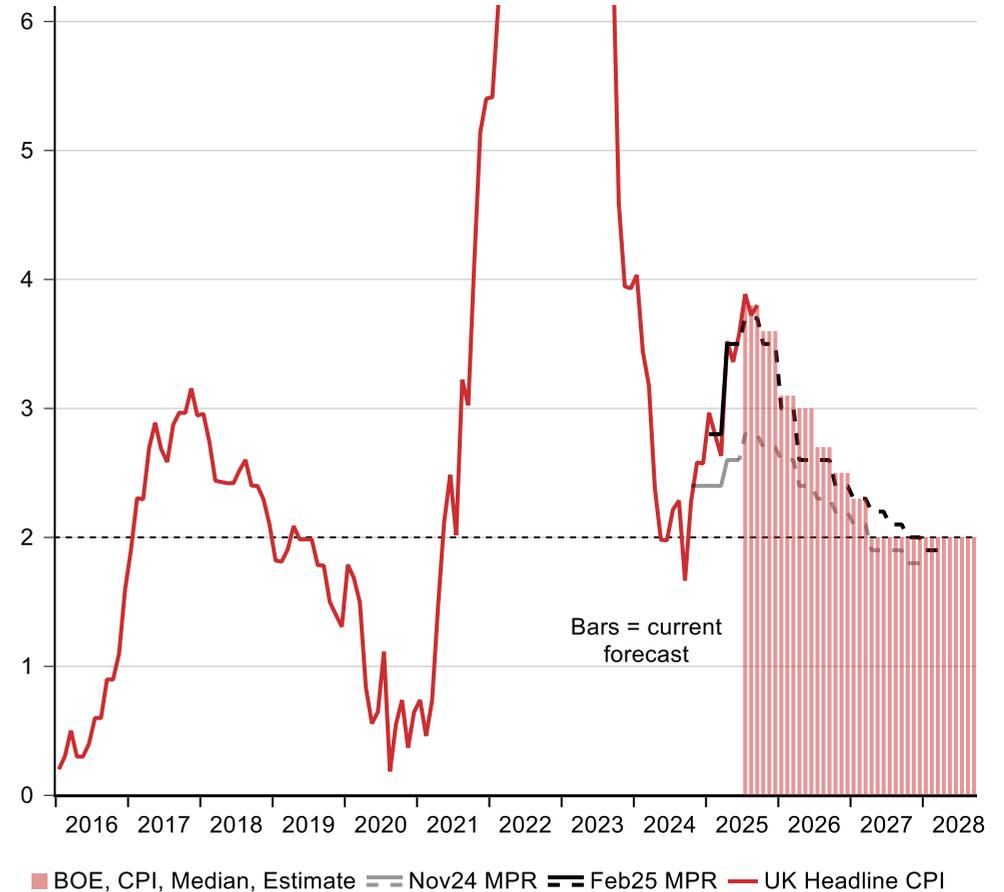
BOE GDP forecasts vs PMI

BOE GDP forecasts vs PMI



BOE inflation forecasts

BOE CPI Estimates (quarterly) vs previous MPRs



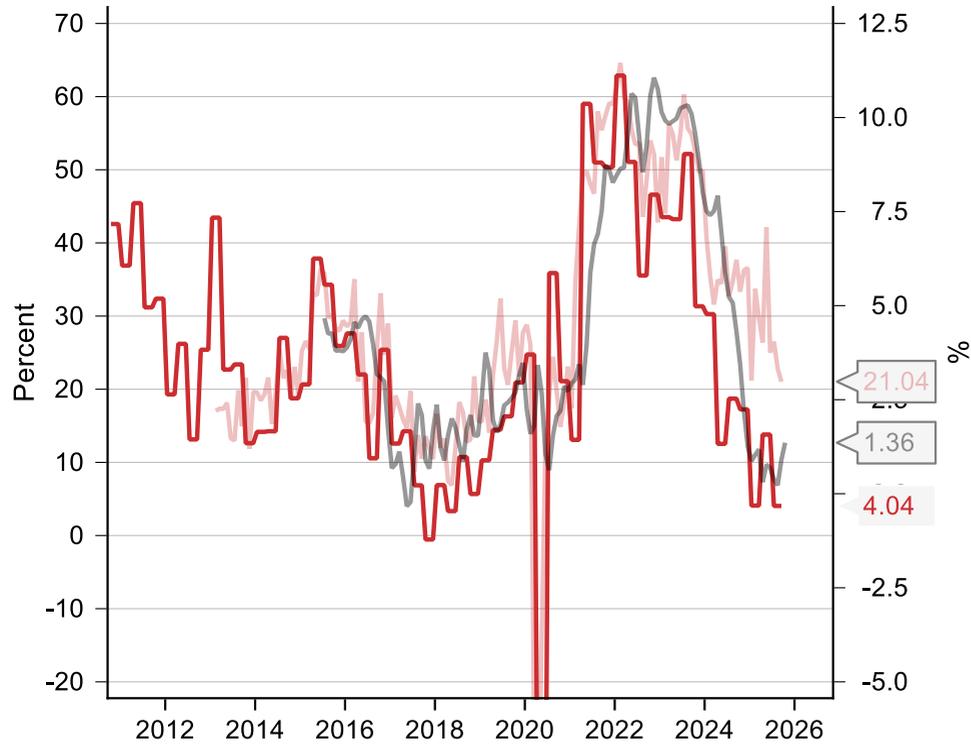


Inflation

- Housing market, RICS and Rents impact on CPI

UK Lettings market

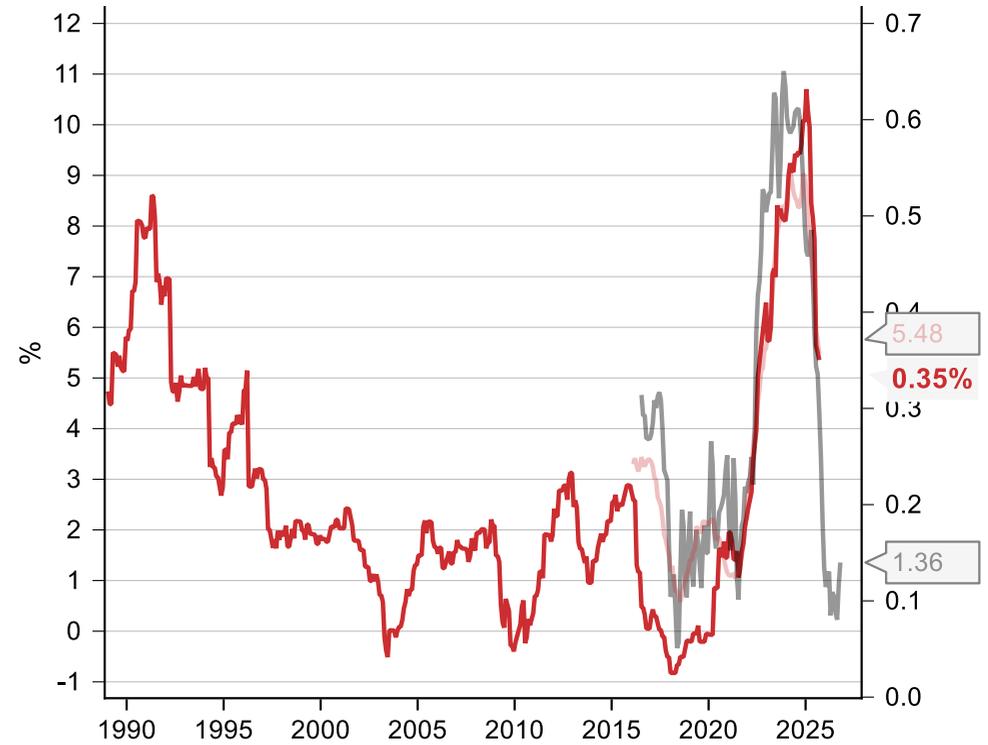
RICS Tenant demand vs expectations and Homelet Actual rents



- UK HomeLet, Residential, Rental Prices, rhs [a.r. 1 year]
- RICS, Residential Lettings Rent Expectations, 3 Months Ahead, lhs [sa. X...]
- RICS, Residential Lettings Rent Expectations, Tenant Demand, SA, lhs

Homelet indicator leads the ONS by up to a year?

Rents are contributing a lot to CPI, signs they have now turned?



- ONS, Private Housing Rental Index, lhs
- UK HomeLet, Residential, Rental Prices, lhs [a.r. 1 year, lag 12 months]
- ONS, CPI, Contribution to headline, Actual Rents for Housing, rhs

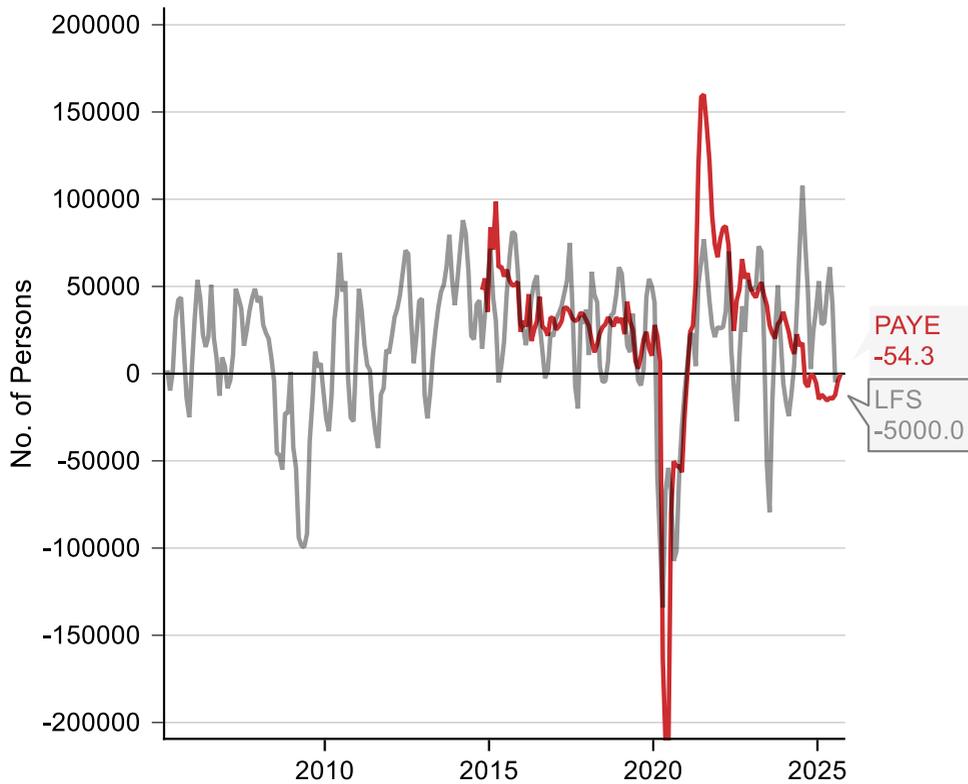


GBP Labour markets – Unemployment to rise further, but noisy data

1. PAYE gives a gloomier picture than the LFS establishment survey
2. The KPMG REC report on Jobs suggest a grind higher in UK unemployment (4.7%)

Conflicting messages on employment growth

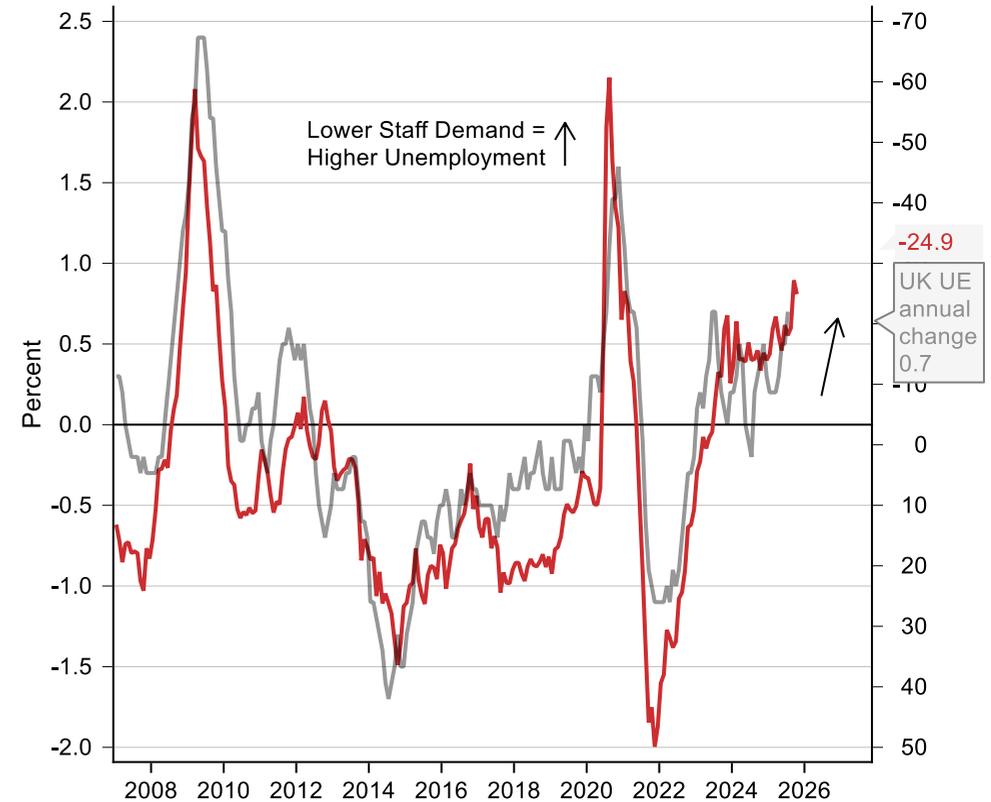
PAYE employment growth vs LFS (3mma)



— LFS, Employment, Aged 16-64 [c.o.p. val 1 month, m.a. 1 quarter]
 — Payroll Employees [c.o.p. val 1 month, m.a. 1 quarter]

BOE inflation forecasts

UK REC points to higher unemployment ahead



— United Kingdom, Unemployment Rate, lhs [c.o.p. val 1 year]
 — UK REC Report on Jobs - Permanent placements - Permanent Staff Availability, rhs...



GBP STIR

• BOE pricing

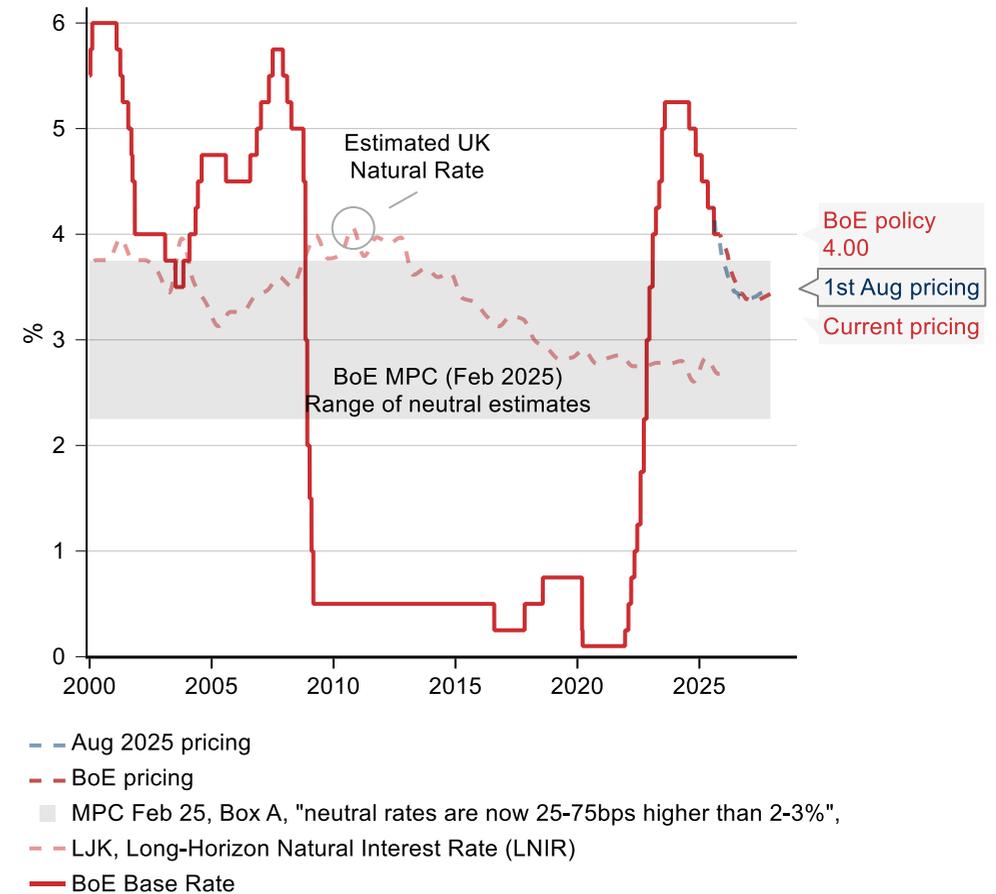
BOE pricing (SONIA futures)

What's priced for the BOE by Dec25 and Dec26?



BoE pricing vs neutral band

Bank of England (BoE) monetary policy - is it neutral yet?





GBP FX

1. GBP/USD forecasts
2. GBP/JPY forecasts

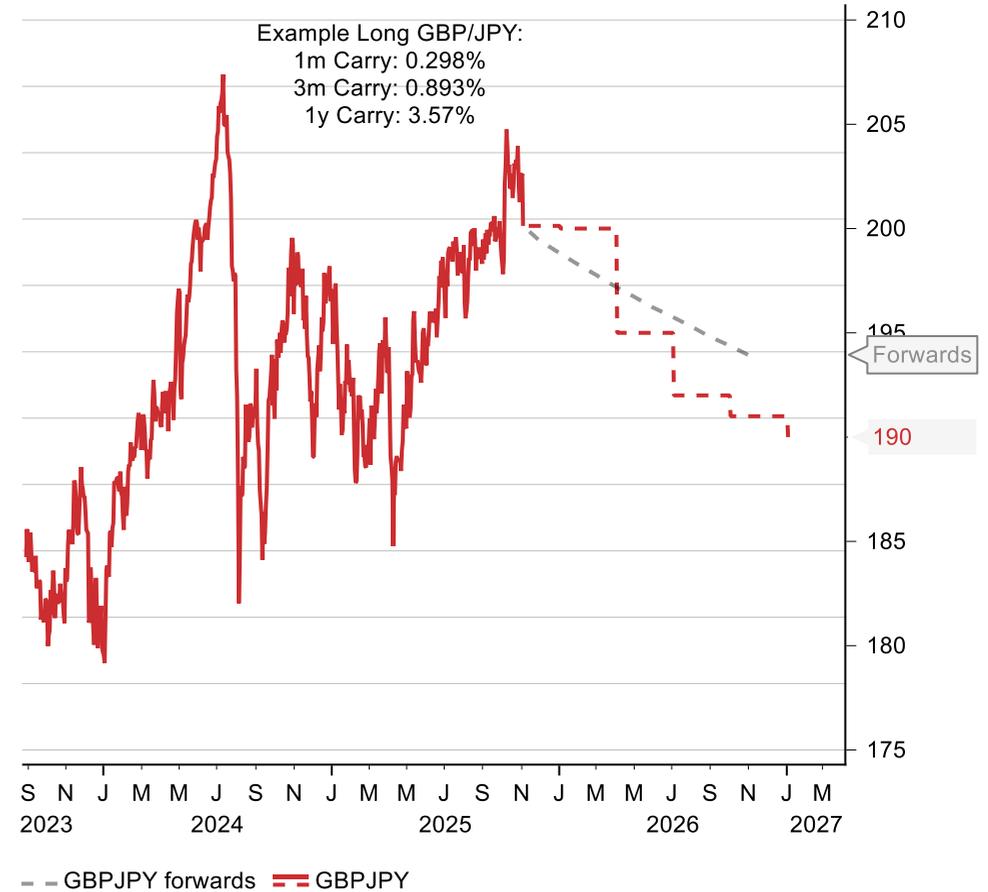
GBP/USD forecasts

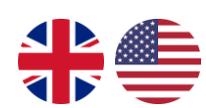
Mizuho GBP forecasts



GBP/JPY forecasts

Mizuho GBP/JPY forecasts



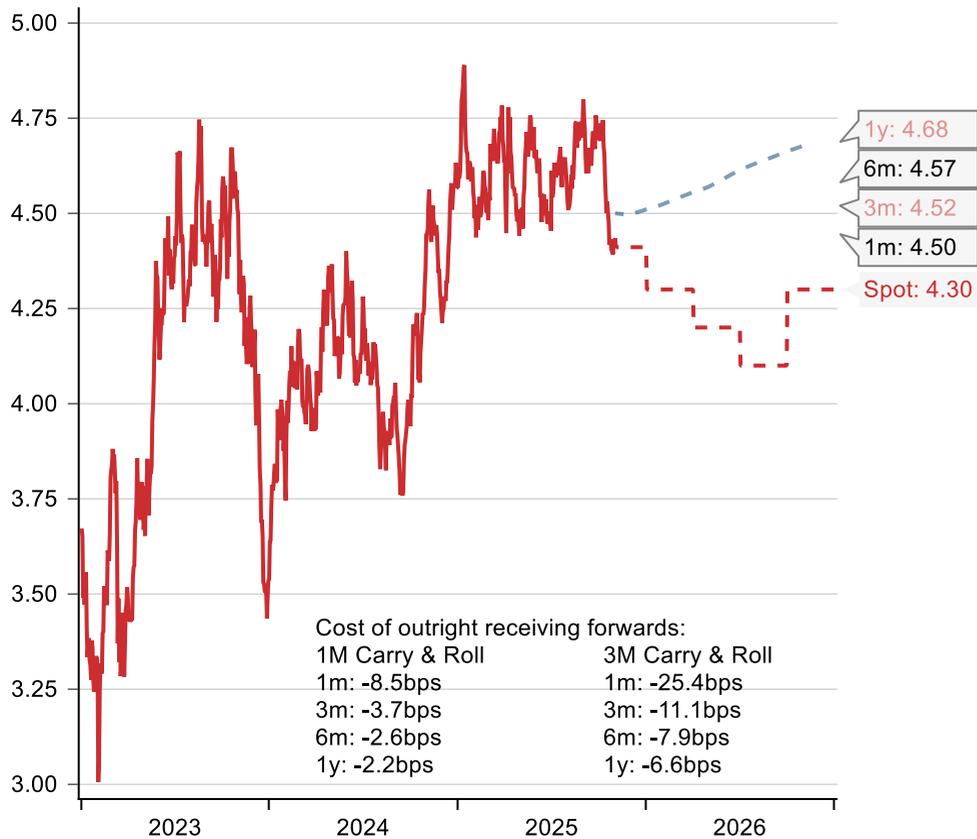


GBP Rates - Duration

1. UK 10yr vs forwards
2. 10yr UST-Gilt spreads vs forwards

10yr Gilts

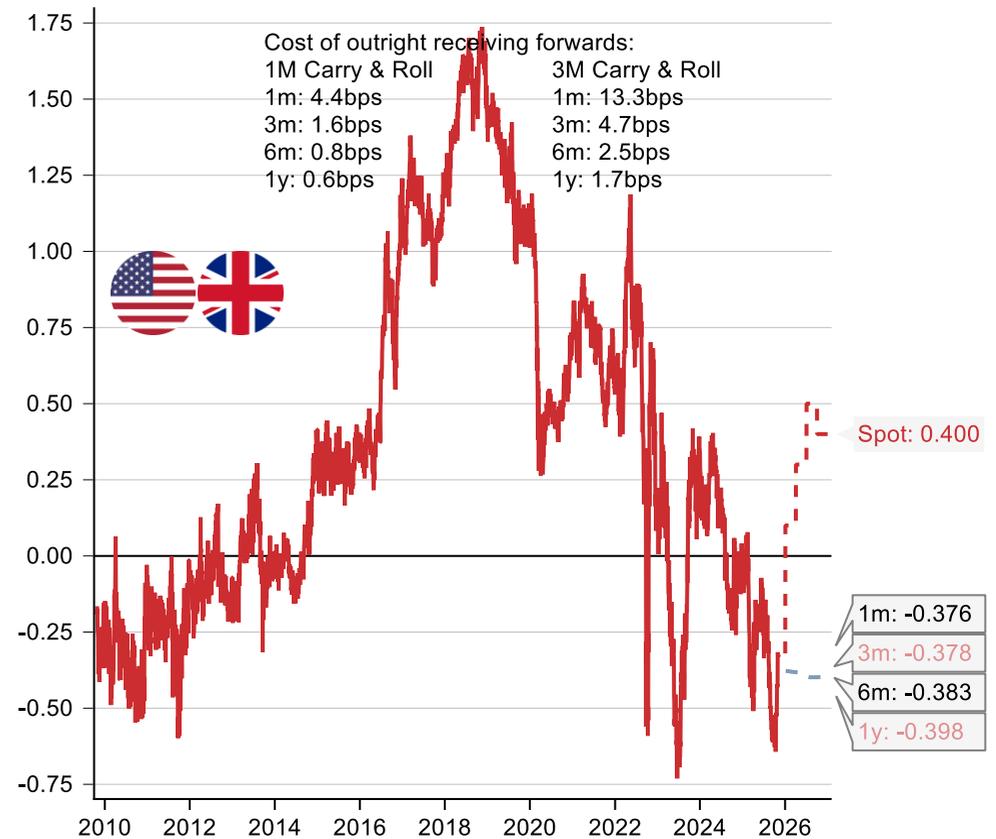
UK 10s vs forwards



-- Forwards == UK 10s

UST-Gilt 10yr

UST-Gilt 10yr spread vs forwards and forecasts



-- Forwards == UST-Gilt 10yr

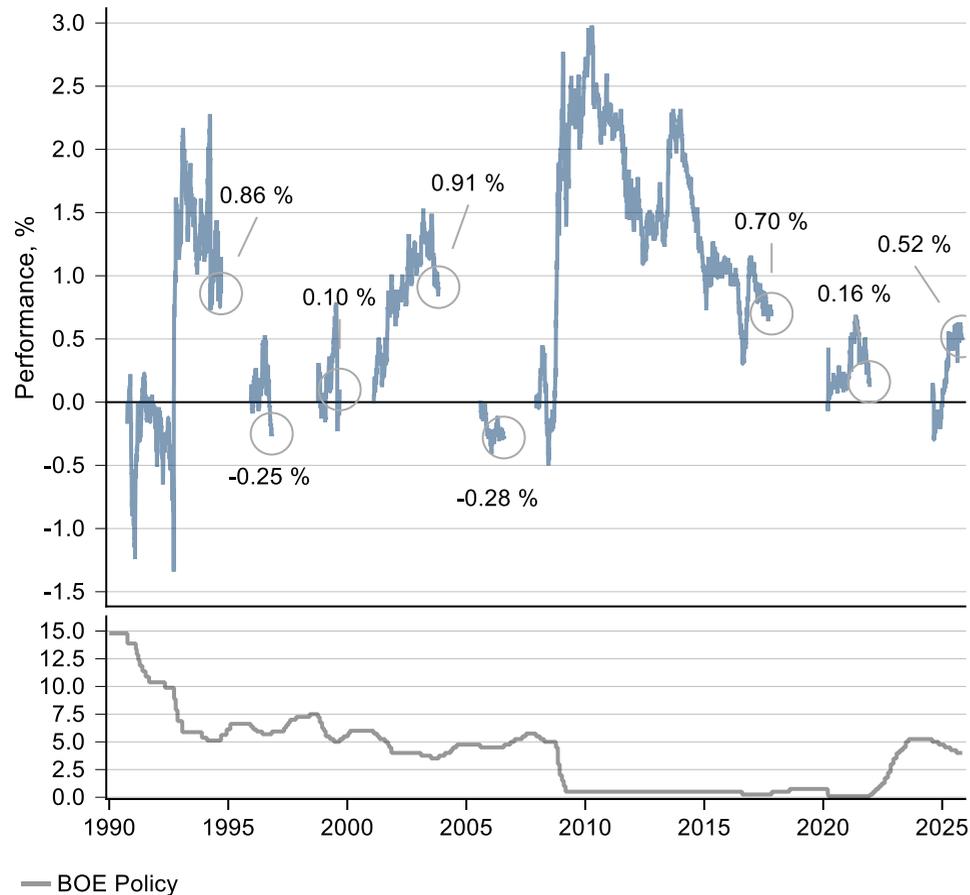


GBP Rates - Curve

1. UK 2s10s in cutting cycles
2. UK 2s10s vs forwards

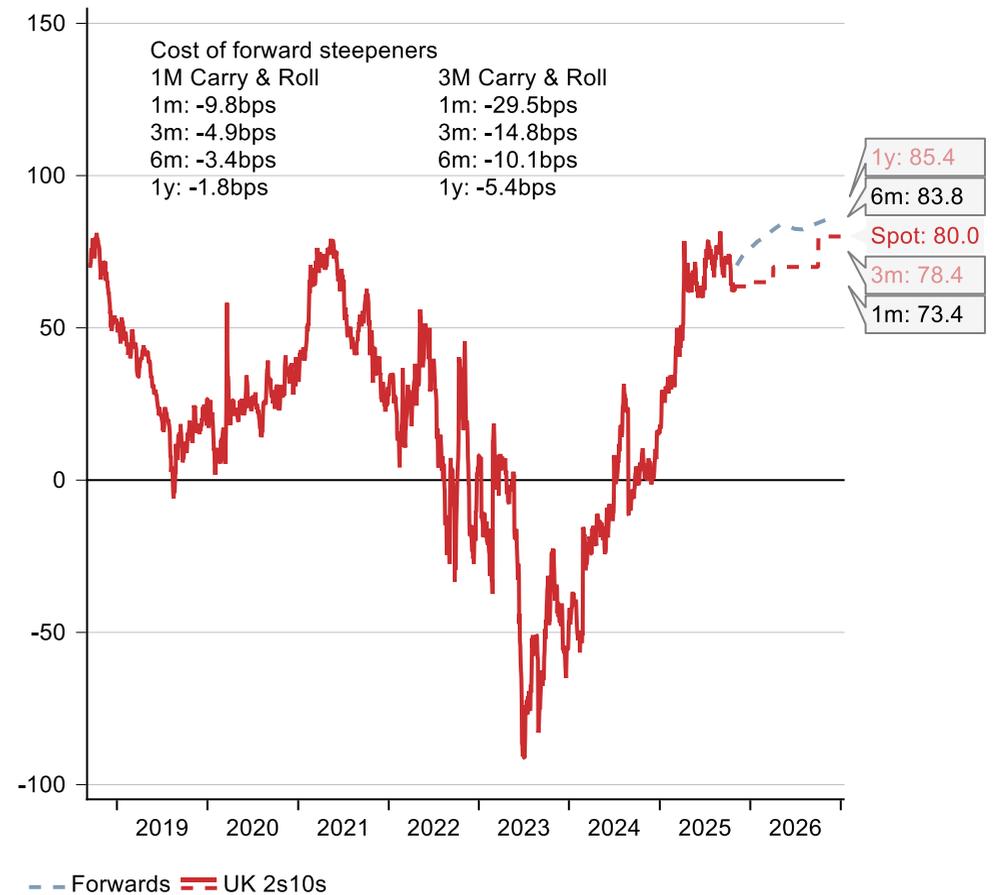
UK 2s10s

UK 2s10s in cutting cycles



UK 2s10s vs forwards

Gilts 2s10s vs forwards



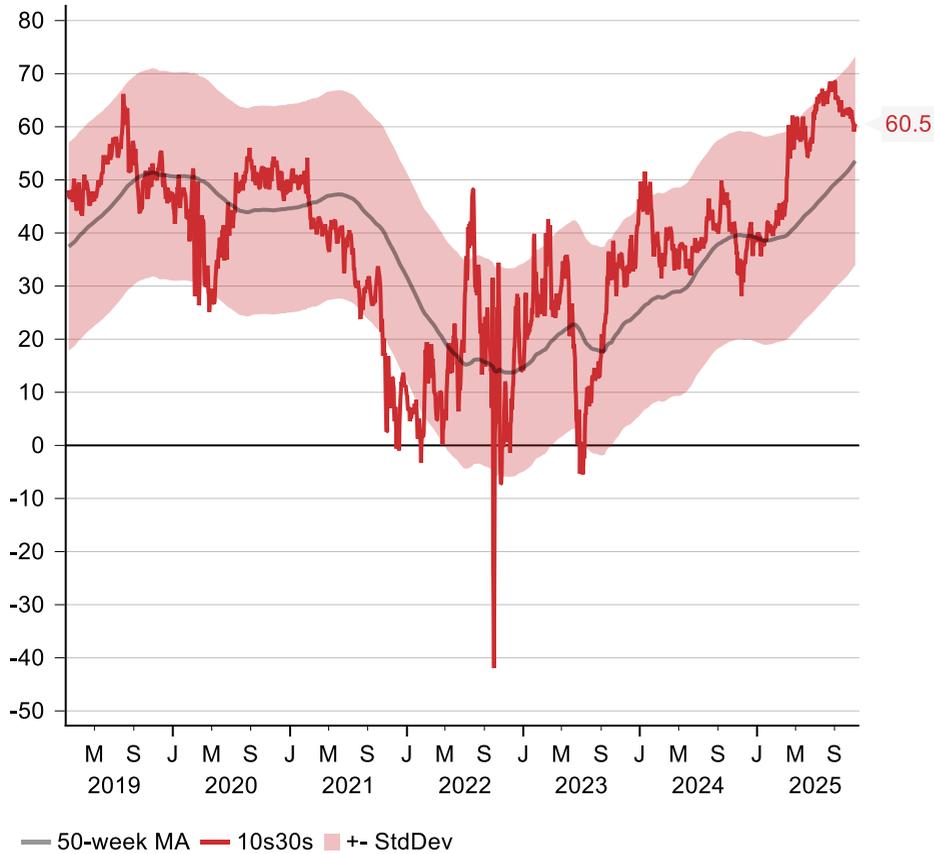


GBP Rates - Curve

1. What's going on in the long end of the curve? Time to flatten?
2. DMO (via less long-end issuance) and BoE (via active QT stop) can provide support to the super long end, which remains very dislocated

UK 10s30s

Gilts 10s30s (bp)



GBPUSD XCCY basis spreads

GBPUSD XCCY basis (bp)



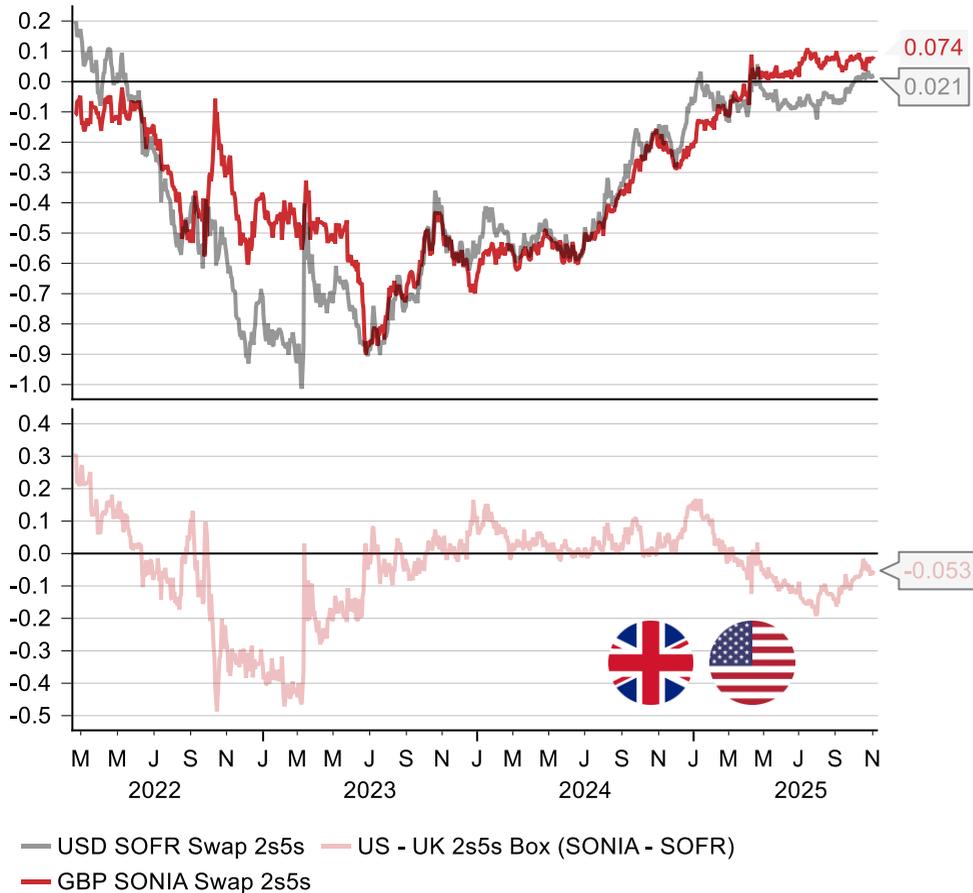


GBP Rates – Curve vs US

1. UK 2s5s to out steepen the US?
2. Cost of holding 2s5s steepeners (in swaps)

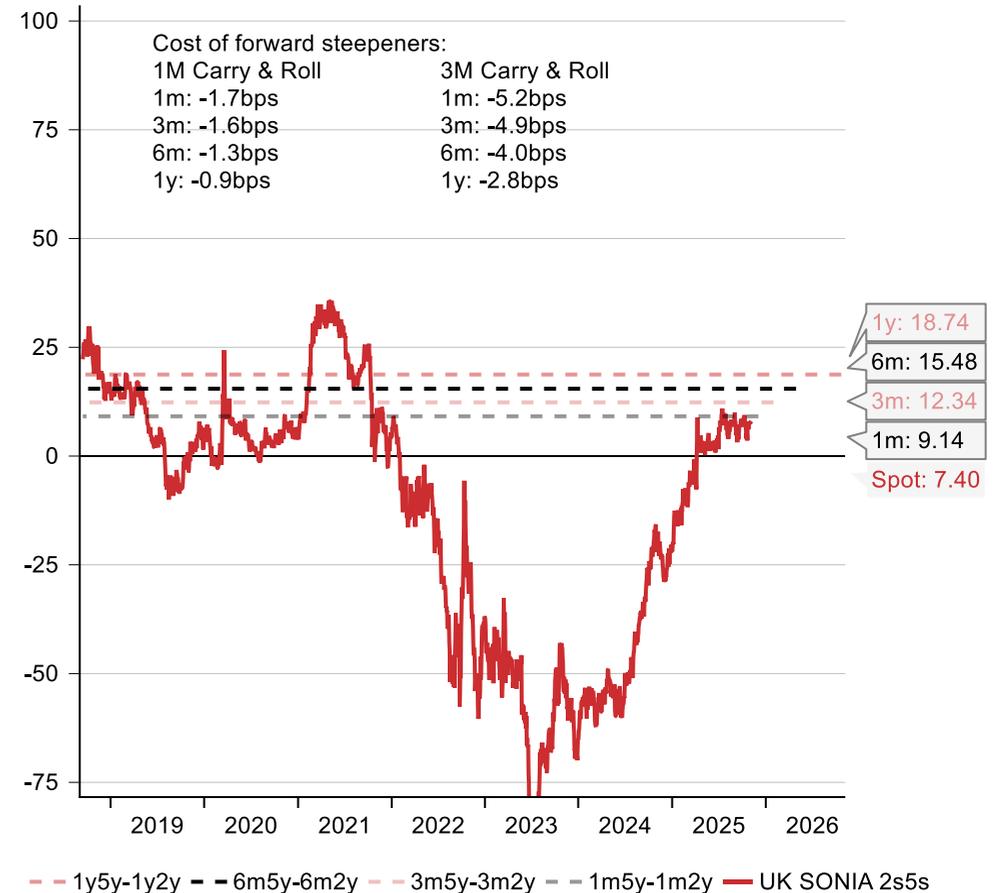
US-UK 2s5s Box spread

US - UK 2s5s Box spread



UK 2s5s (SONIA Swaps)

UK SONIA 2s5s vs forwards

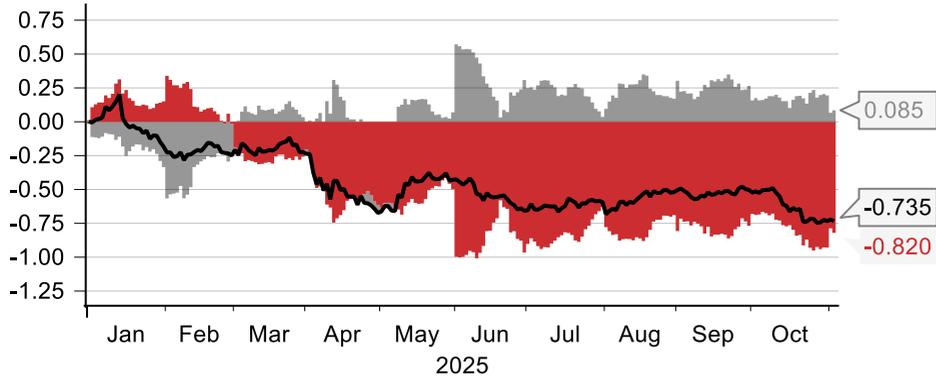




GBP rates moves broken down

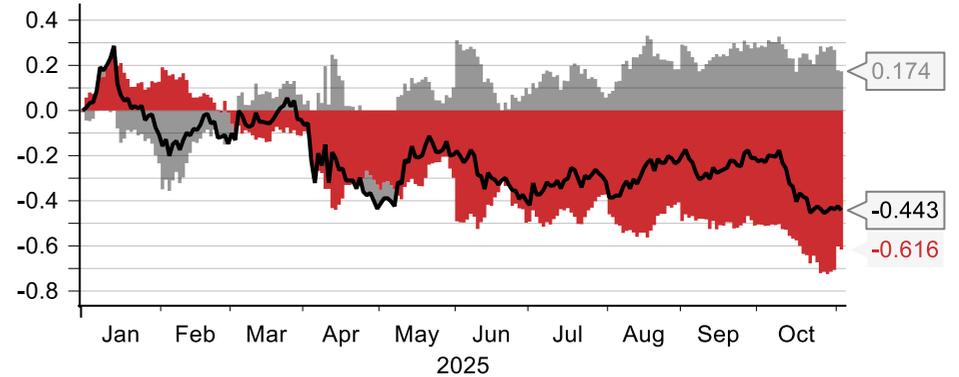
- The disinflation push has been much stronger in the UK
- Real rates are driving the surge in long end yields, with markets demanding an increasing term premia

Changes in UK 2yr split into real vs inflation expectations



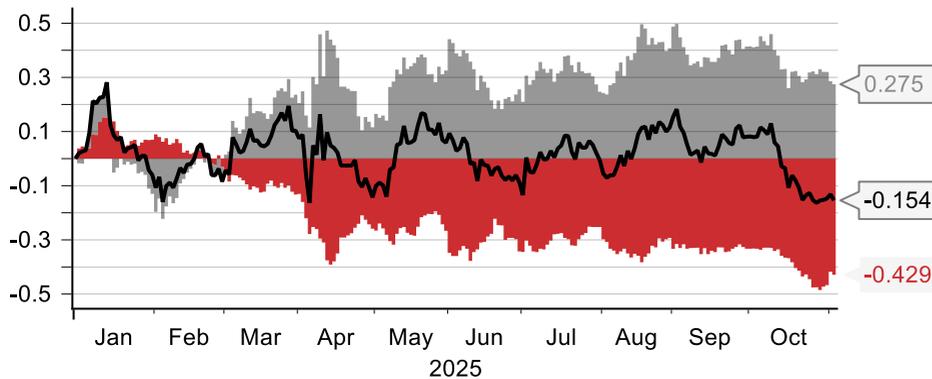
— UK Nominal 2yr moves (SONIA) ■ UK Real yield ■ UK Inflation 2yr

Changes in UK 5yr split into real vs inflation expectations



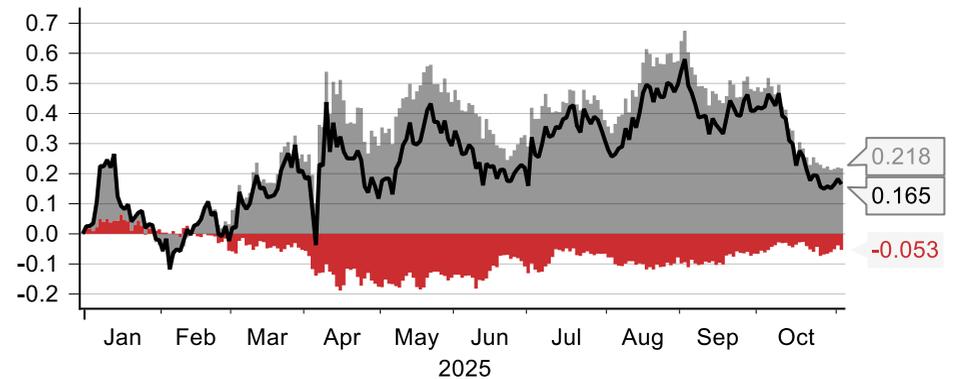
— UK Nominal 5yr moves ■ UK Real yield ■ UK Inflation 5yr

Changes in UK 10yr split into real vs inflation expectations



— UK Nominal 10yr moves (SONIA) ■ UK Real yield ■ UK Inflation 10yr

Changes in UK 30yr split into real vs inflation expectations



— UK Nominal 30yr moves (SONIA) ■ UK Real yield ■ UK Inflation 30yr

JPY

Event Risks ahead (JP)

Timeline of risk events:

October 2025

- **Late Oct or beyond:** Major companies to announce policies for wage hikes ahead of spring wage negotiations

Autumn

- MHLW to publish results of 2025 Survey on Wage Increase
- **Government - Drafting of supplementary budget (expected)**

November 2025

- **17 Nov:** Cabinet Office: 2025 Q3 first preliminary GDP estimates
- **Within Nov:** Cabinet approval of economic stimulus package
- **Within Nov:** Japanese Trade Union Confederation (Rengo) to publish policy for 2026 spring wage negotiations
- **Within Nov:** Government supplementary budget bill (expected)

December 2025

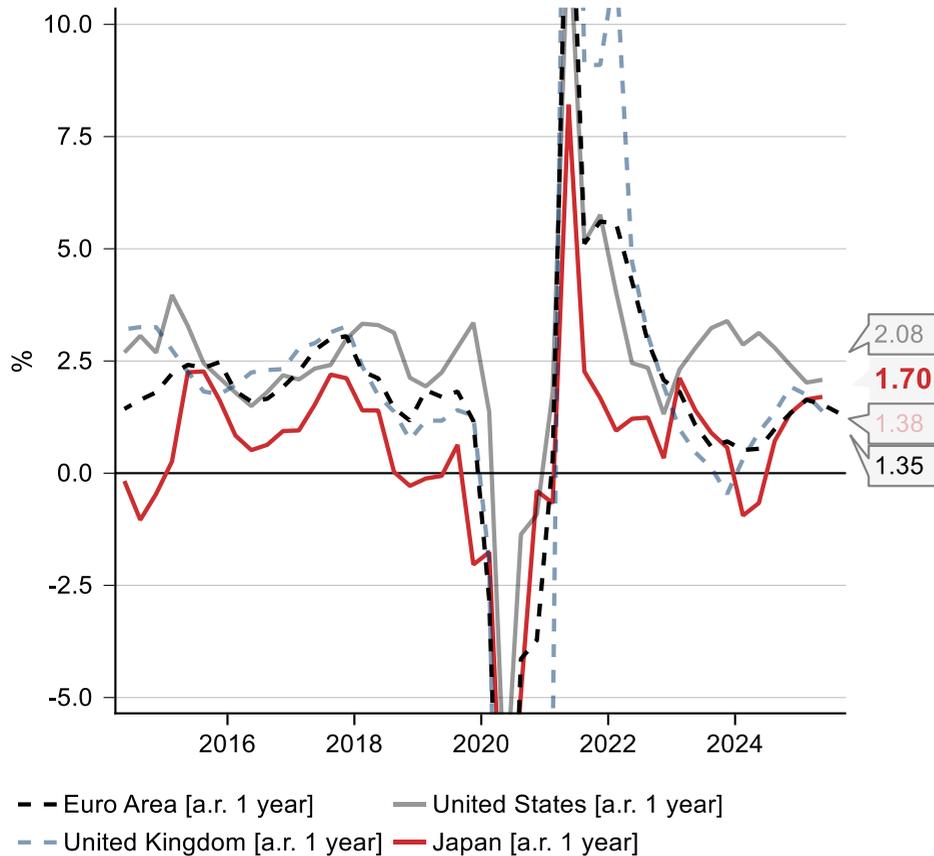
- **Early Dec:** FY25 supplementary budget to be submitted
- **17 Dec:** Extraordinary Parliament session ends
- **19 Dec:** BoJ monetary policy meeting
- **Late Dec:** Government cabinet expected to approve FY26 budget
- **Late Dec:** Speech by BOJ Governor Kazuo Ueda at Keidanren

JPY Growth and Inflation

1. Strong Tankan and PMIs along with corporate profits suggest steady growth ahead
2. But the output gap is negative in the BoJ's view and CPI should slow

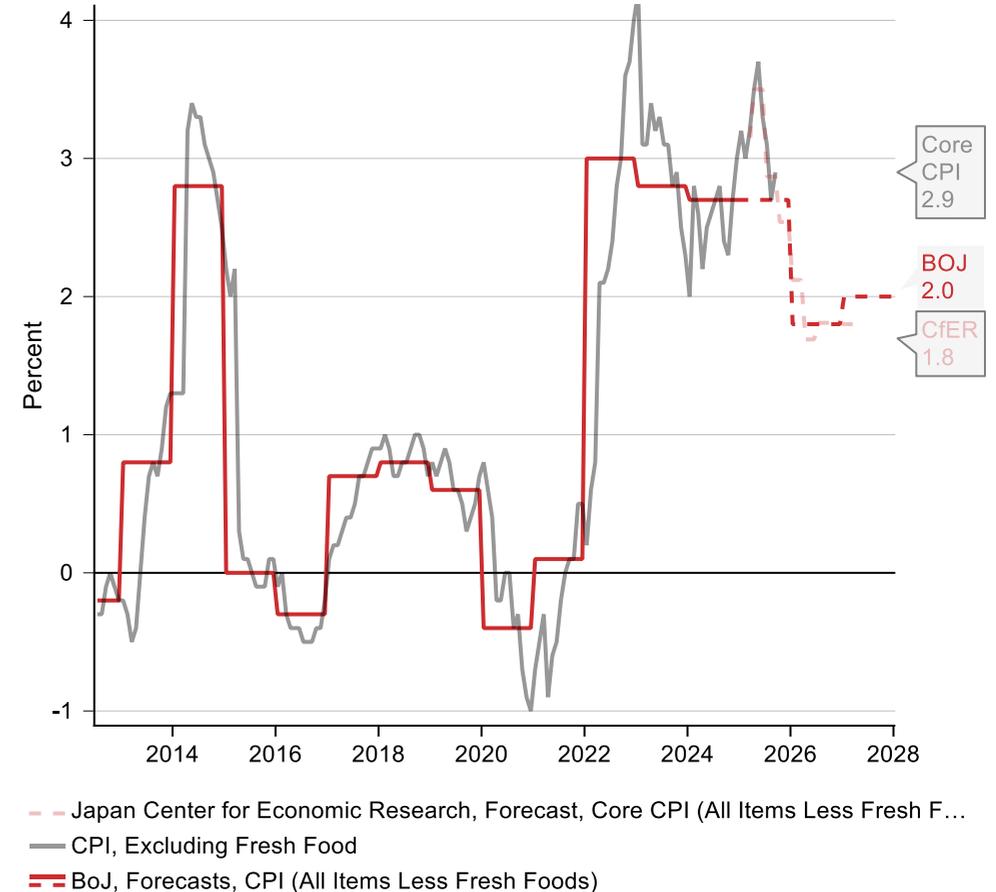
Healthier growth than the start of the year

Japan's growth has rebounded from mild recession



But a negative output gap has BoJ forecasts expecting a CPI slowdown

BOJ forecasts vs CPI (less fresh food)

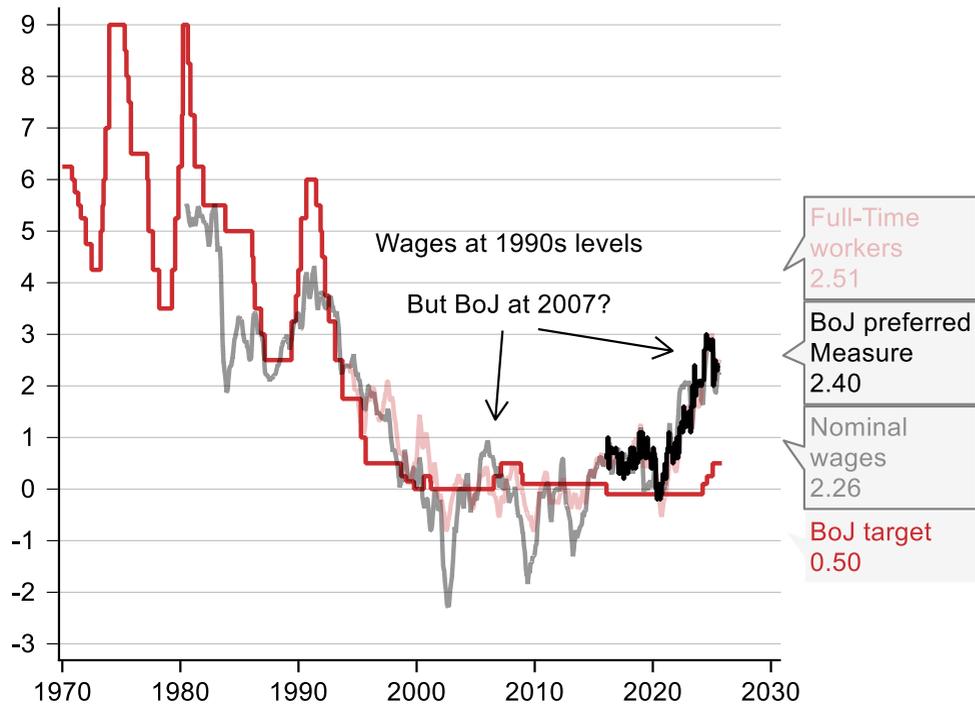


JPY Wages and Employment conditions

1. Japan has 1990s levels of wage growth, but 2007 levels of rates
2. Japan has only once had this level of tight labour markets.

Japan Wages

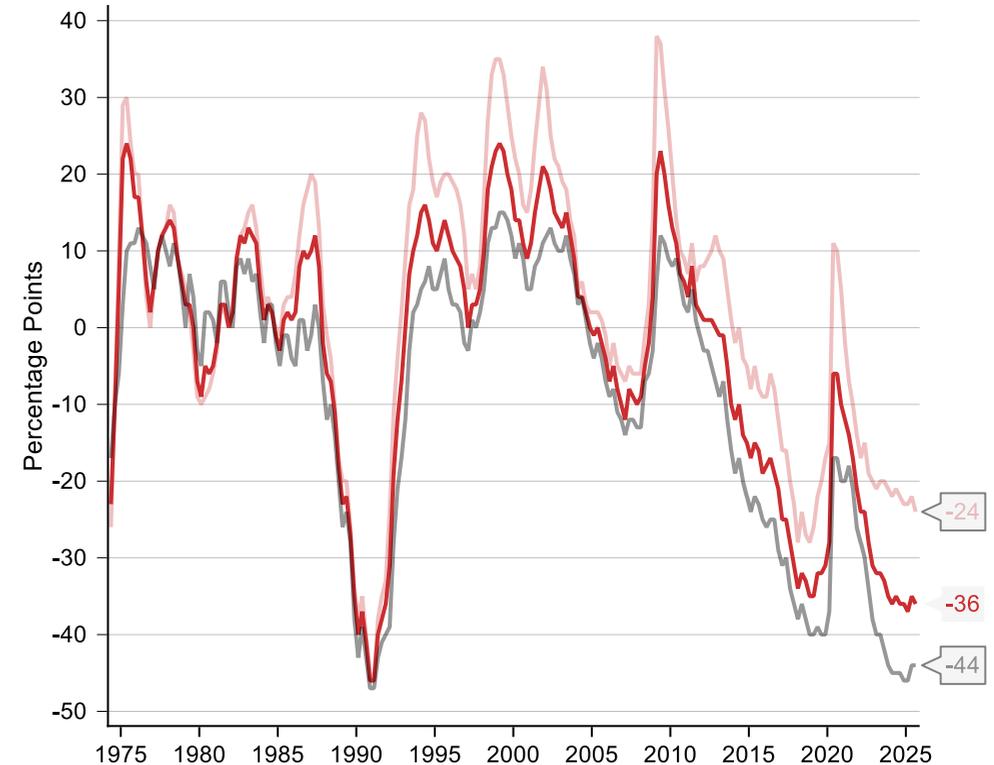
Japan Nominal Wages vs BOJ Policy



- Common Office, Full-Time Workers, scheduled cash earnings
- Contractual Cash Earnings, Scheduled, Full-Time Worker [a.r. 1 year, m.a. 1 quarter]
- Japan Nominal Wages [a.r. 1 year, m.a. 1 quarter]
- Policy Rates, Bank of Japan

Tankan employment conditions for firms are very tight

Employment conditions, Tankan, Services vs Manufacturing



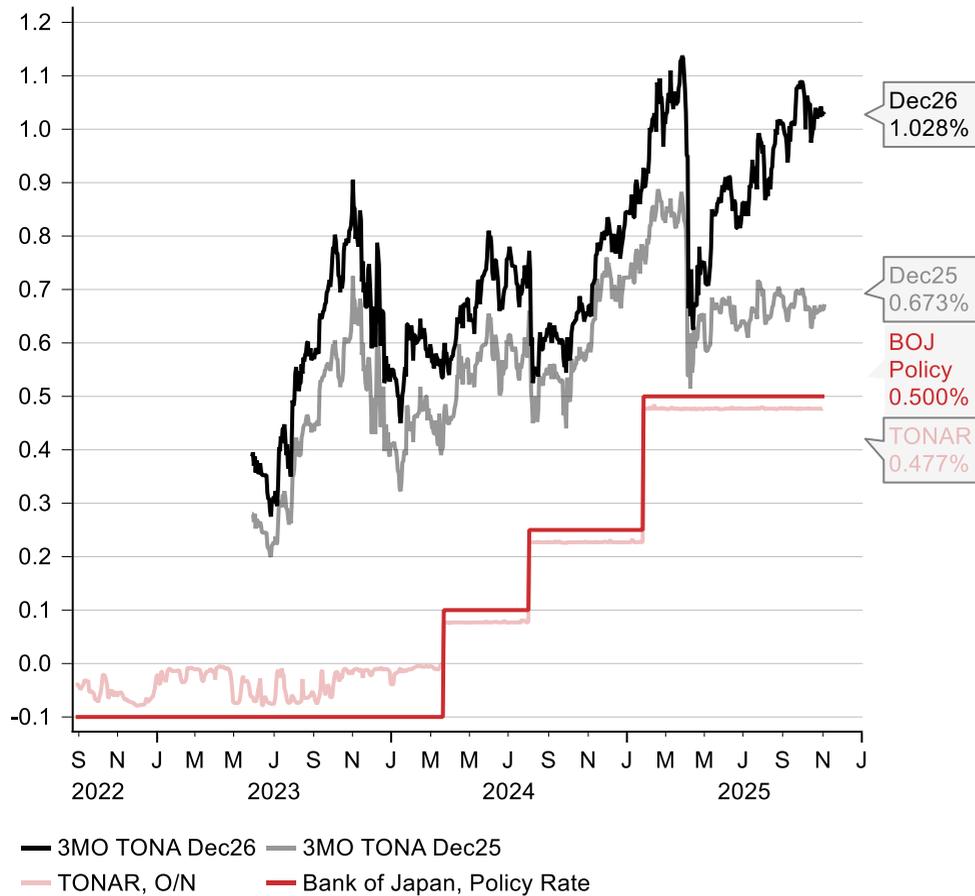
- Manufacturing, Diffusion Index, Actual Result
- Nonmanufacturing, Diffusion Index, Actual Result
- All Industries, Diffusion Index, Actual Result

JPY STIRT

- BOJ TONAR pricing
- 1y1y and 2yr swap vs BOJ

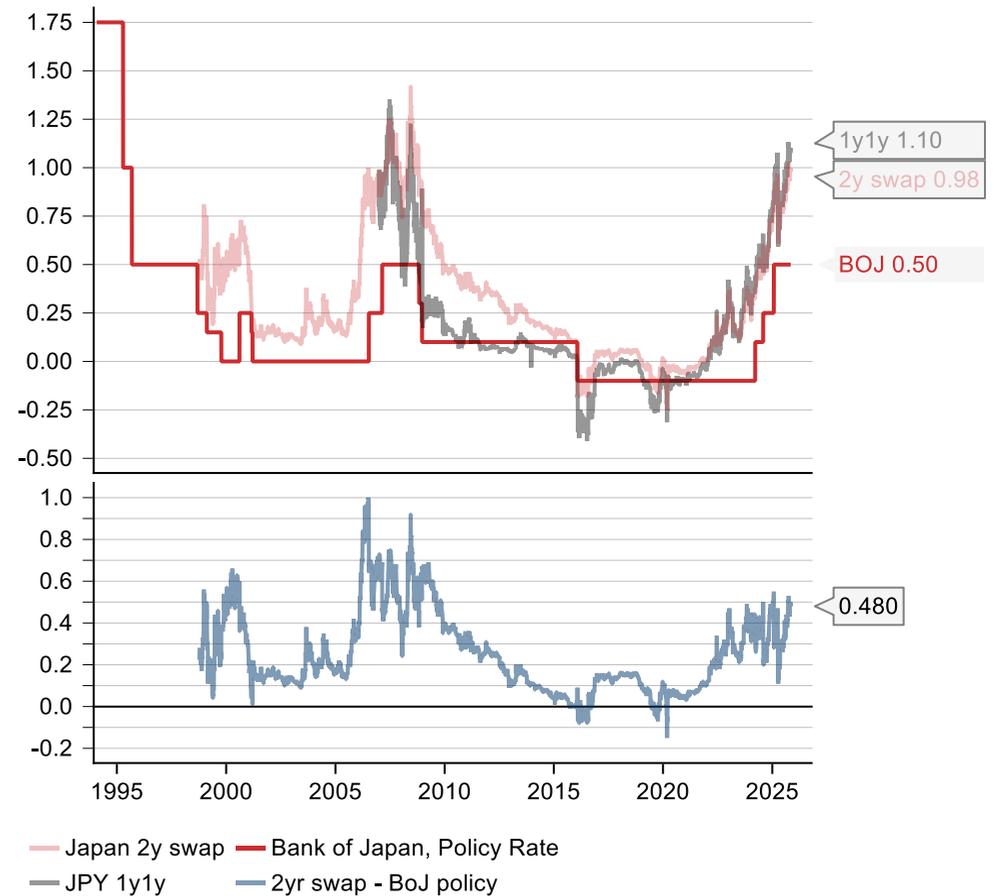
What's priced for the BOJ?

BOJ policy vs TONA futures



Market Pricing of BOJ in 1yr and 2yr

BOJ policy vs Forwards and swaps

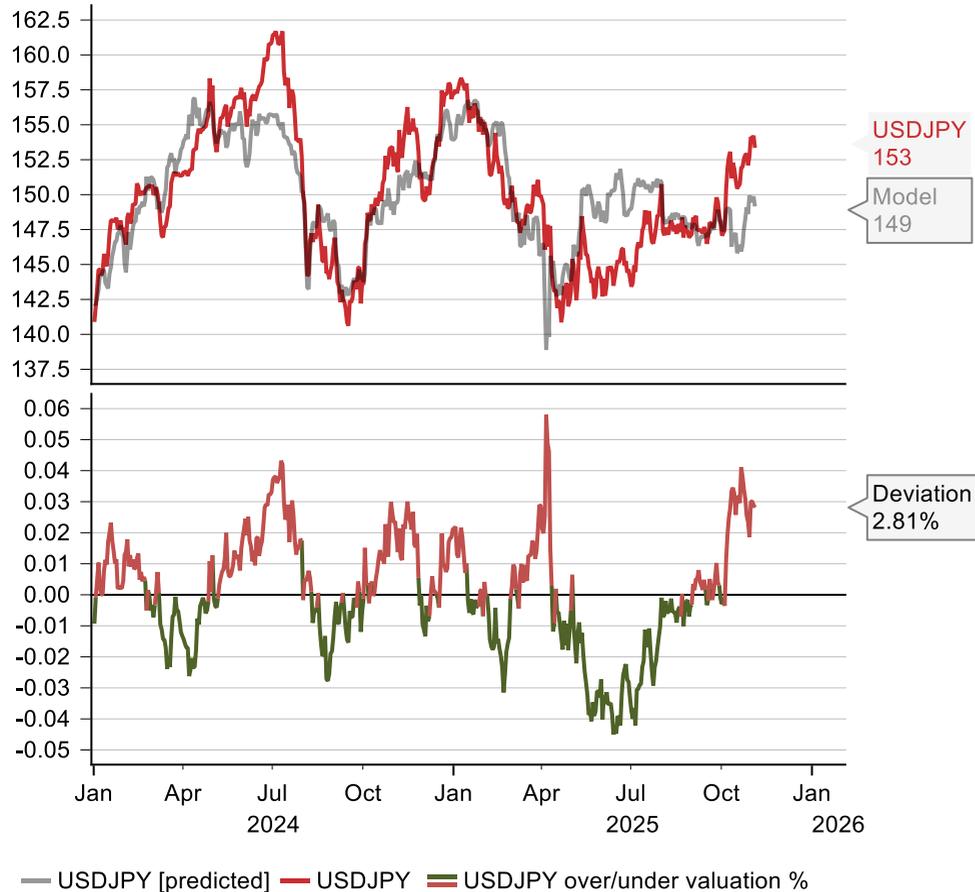


JPY FX

1. USD/JPY multifactor model – short term fair value
2. USD/JPY forecasts

USDJPY short term fair value

USDJPY fair valuation (2y nominal, 10yr real yield spreads, SPX and Oil)



USD/JPY forecasts

Mizuho USD/JPY forecasts

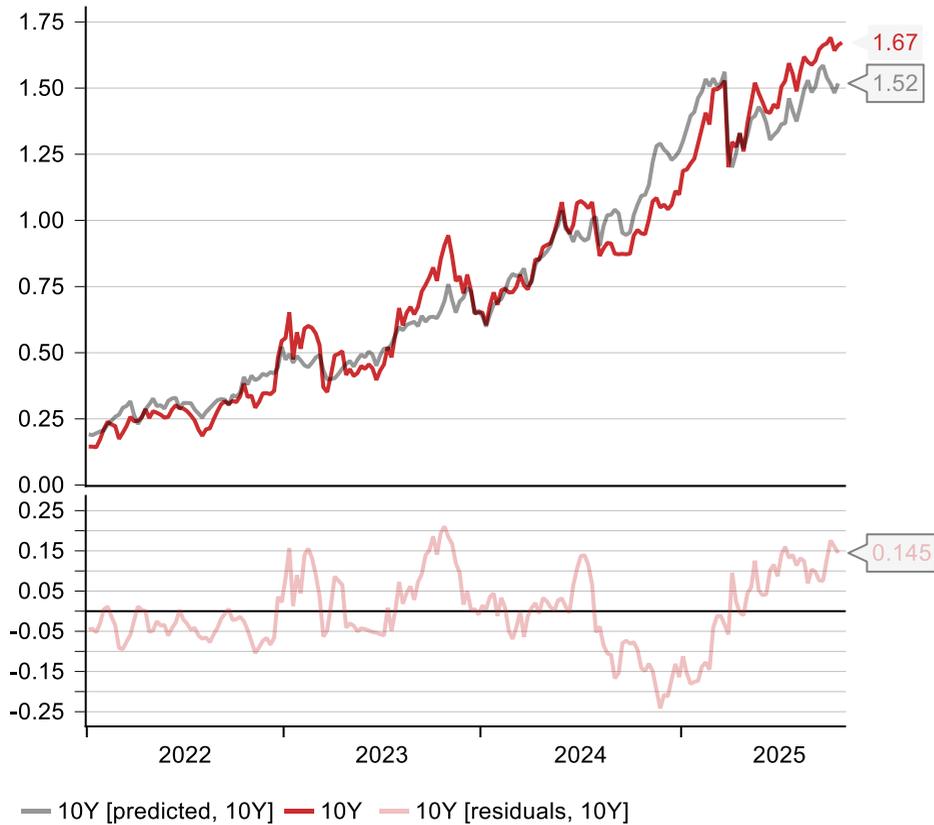


JPY Rates

- Multifactor modelling of 10yr JGB
- 10s30s keeps steepening. Reasons: domestics are sidelined and illiquid part of the curve + fiscal expectations?

Is the 10yr trading on the cheap side?

Based on a 5year lookback regression (6m6m fwd rate, BoJ buying, 10Y BE)



When will domestic investors step into the ultra long end?

JGB 10s30s (bp) just keeps steepening

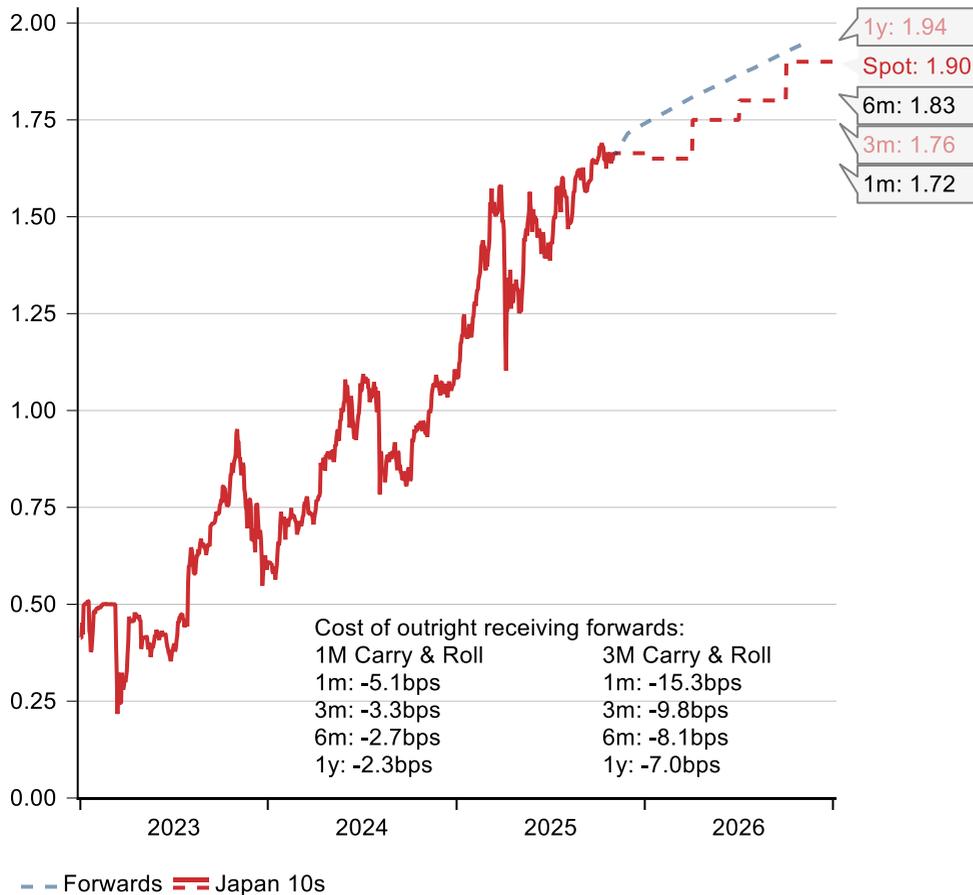


JPY Rates - Duration

1. Japan 10yr vs forwards
2. 10yr UST-JGB spreads vs forwards

10yr JGB

Japan 10s vs forwards



UST-JGB 10yr spread

UST-JGB 10yr spread vs forwards and forecasts



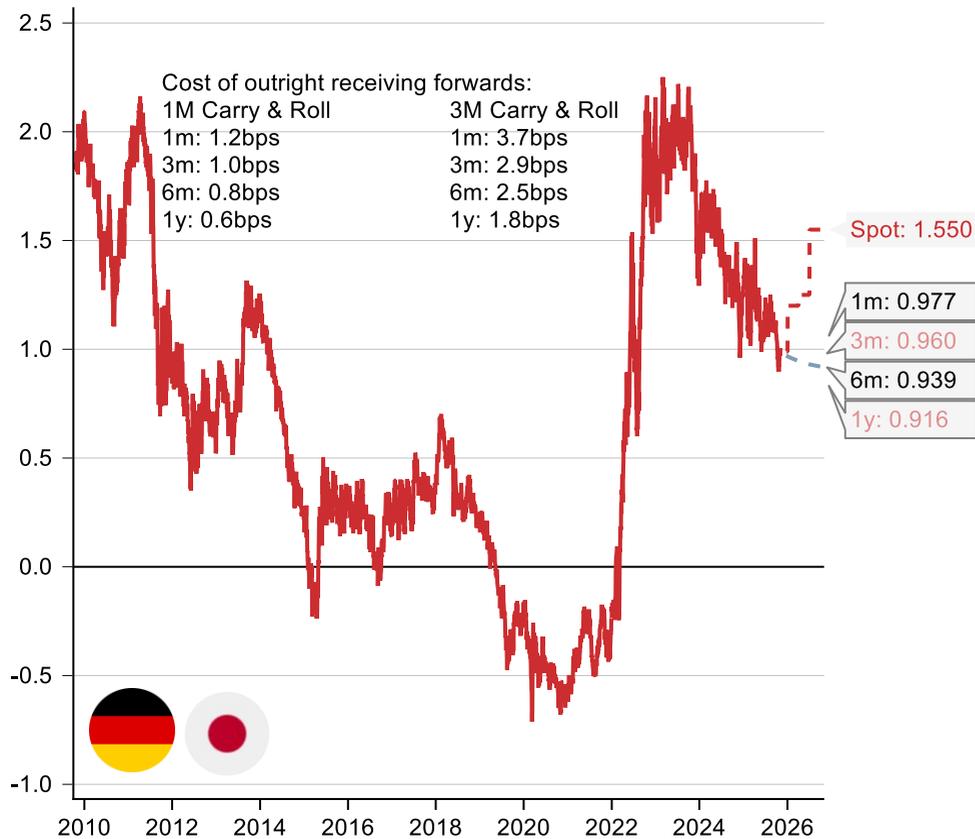


JPY Rates - Spreads

1. 10yr Bund-JGB spreads vs forwards
2. 10yr Gilt-JGB spreads vs forwards

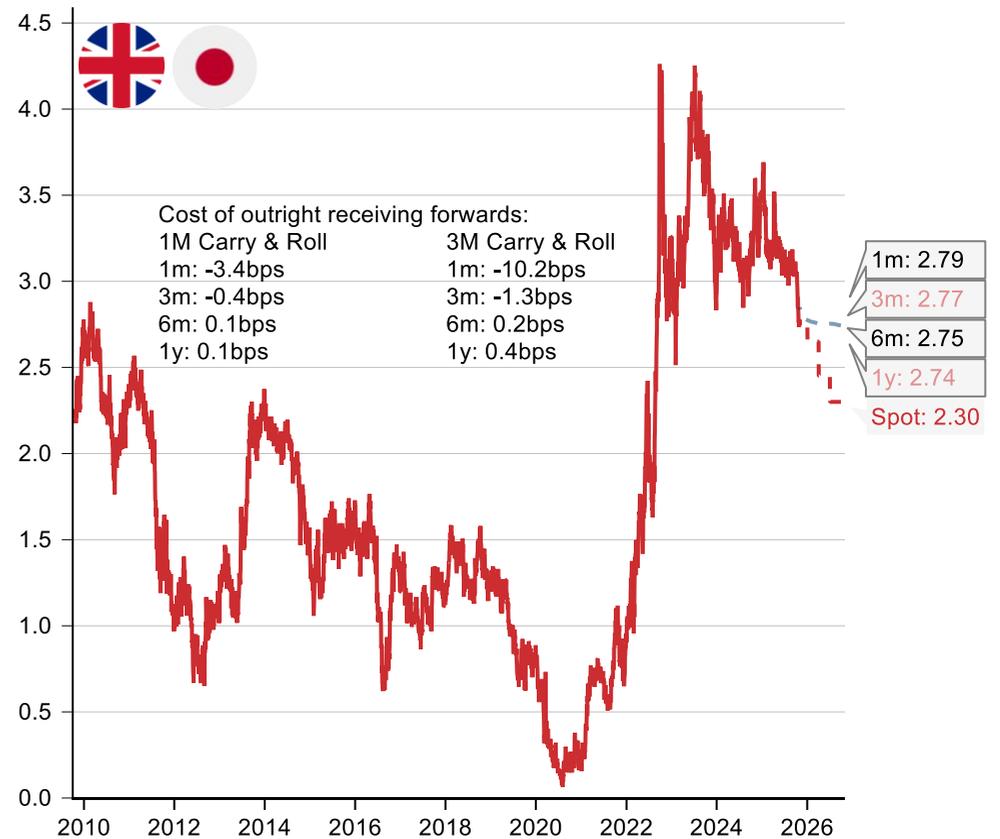
Bund-JGB 10yr spread

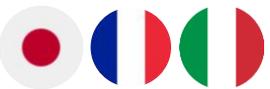
Bund-JGB 10yr spread vs forwards and forecasts



Gilt-JGB 10yr spread

Gilt-JGB 10yr spread vs forwards and forecasts



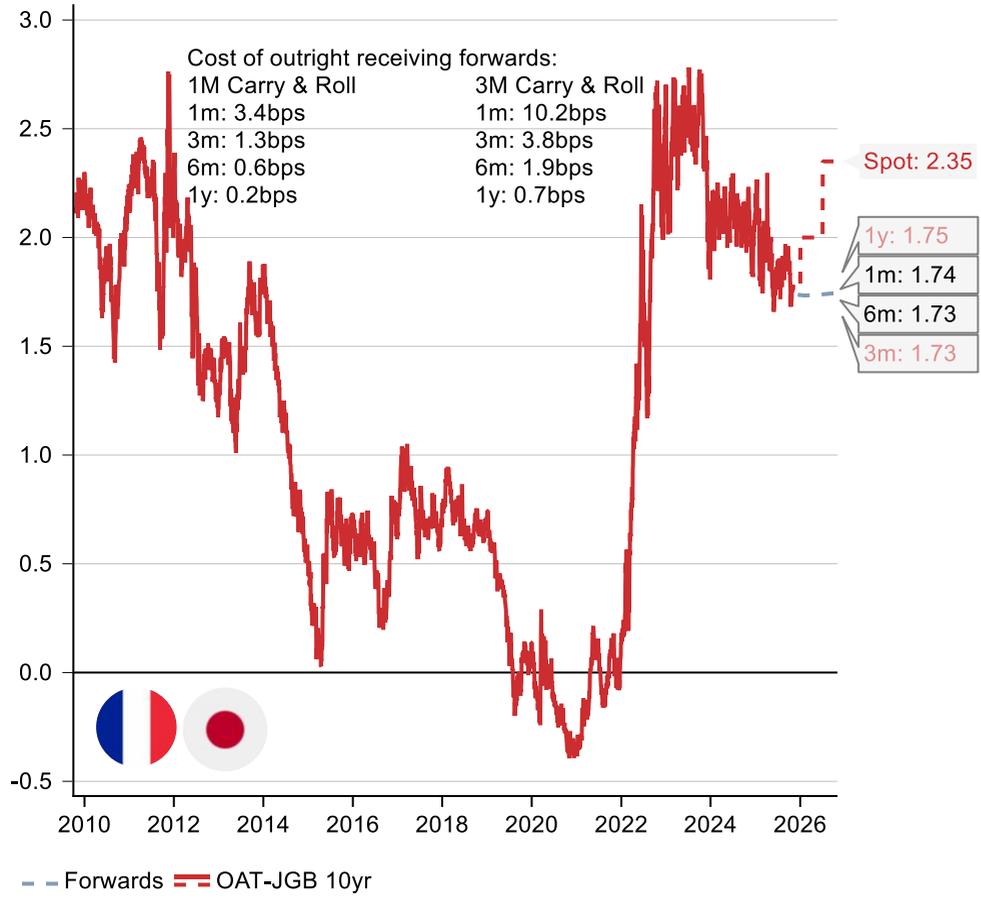


JPY Rates - Spreads

- 10yr OAT-JGB spreads vs forwards
- 10yr BTP-JGB spreads vs forwards

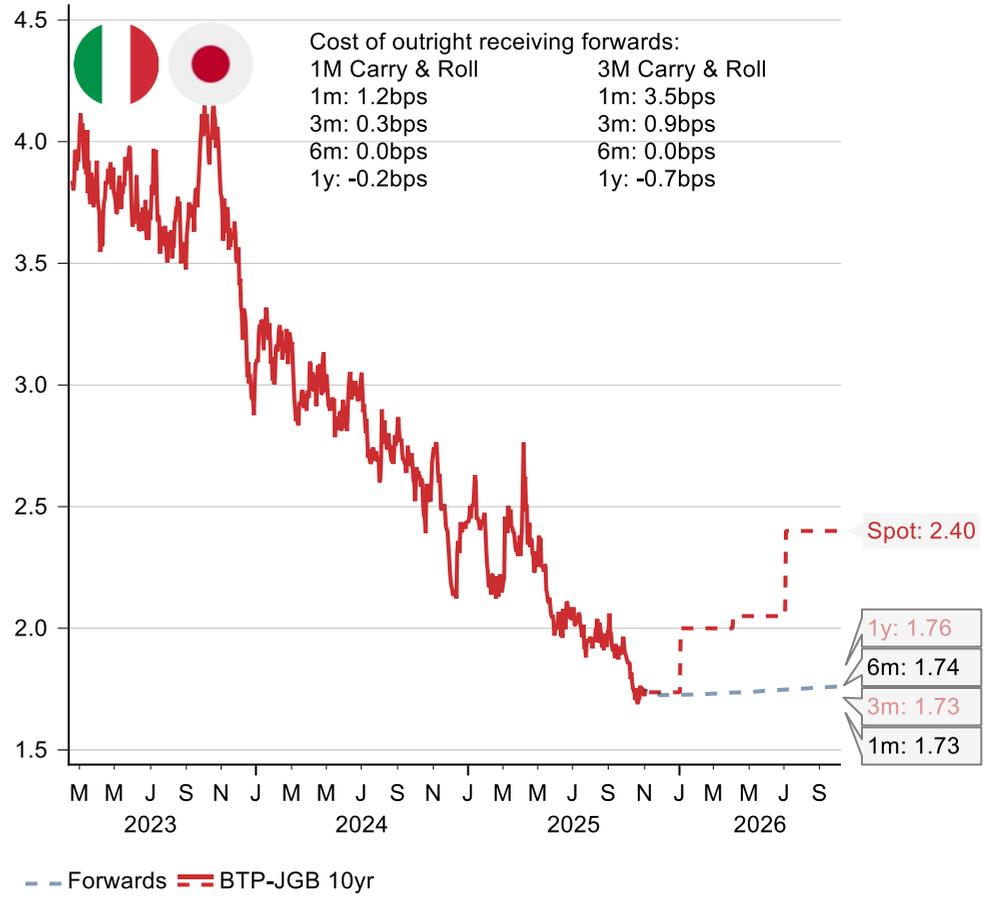
OAT-JGB 10yr spread

OAT-JGB 10yr spread vs forwards and forecasts



BTP-JGB 10yr spread

BTP-JGB 10yr spread vs forwards and forecasts

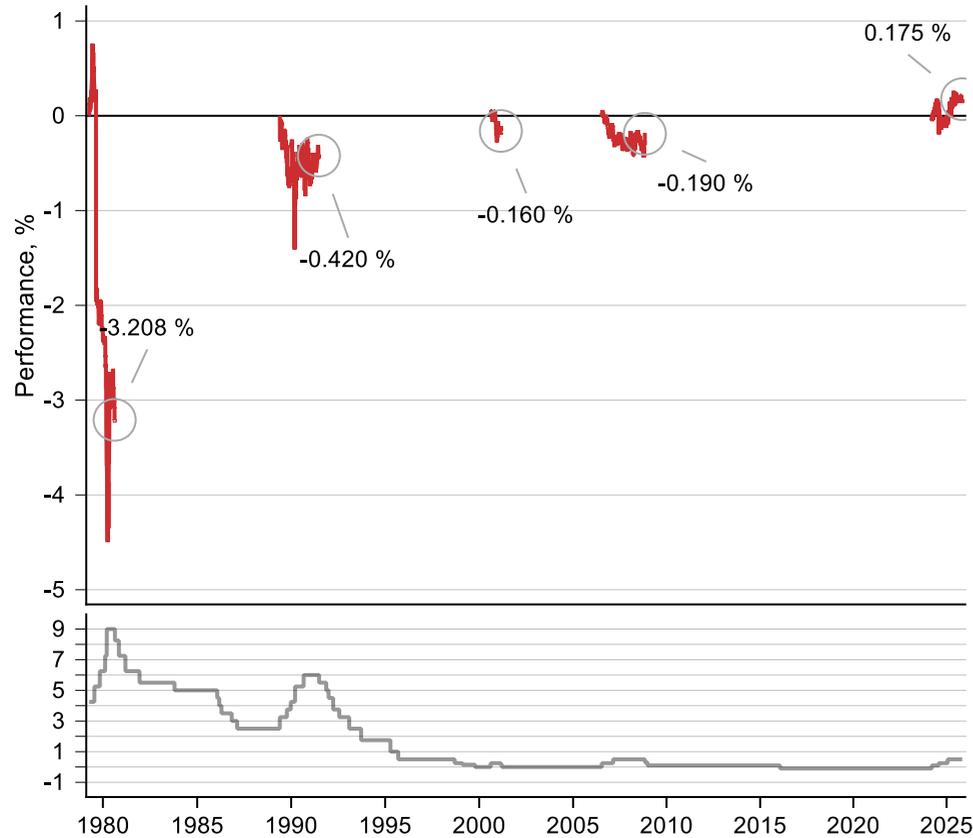


JPY Rates - Curve

1. Japan 2s10s in hiking cycles
2. Japan 2s10s vs forwards

JGB 2s10s in hiking cycles

Japan 2s10s performance during hiking cycles



— BOJ Policy rate

JGB 2s10s vs forwards

JGB 2s10s vs forwards



— Forwards — Japan 2s10s

Swap Spreads



Swap spreads in detail

- Two opposing forces: issuance (German fiscal bazooka) and the Dutch pension fund reform (adjustment to lower hedging needs and steepening in the super long end). That said, given where we expect the issuance push to be centred, it should provide a tightening pressure in EUR swap spreads, which may exacerbate the 10s30s steepening.
- The front end remains relatively contained as collateral abundance and contained EUR rates vol offset the widening in the long end.

Curve has been steepening due to FM anticipating Dutch PF flow

German ASW structure (bp, vs ESTR)



Bund specialness: a thing of the past

Bund specialness (in repo) proxy





Rates – EGB Spreads (4)

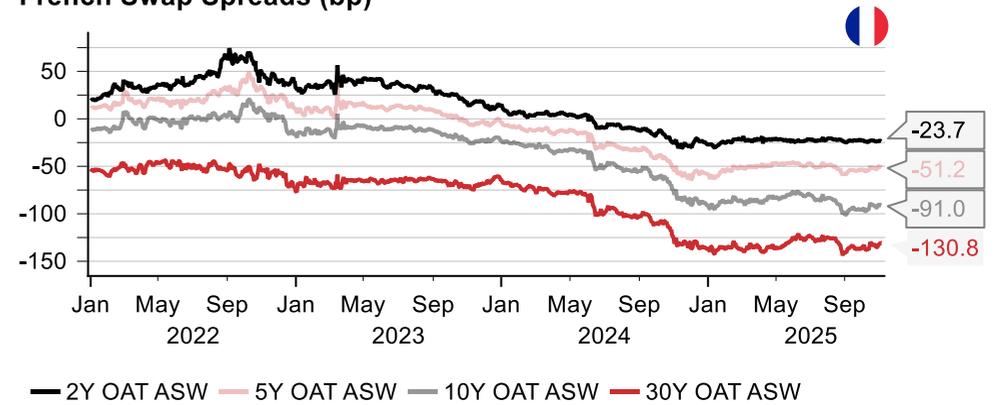
German paper to cheapen on the fiscal story

German Swap Spreads (bp)



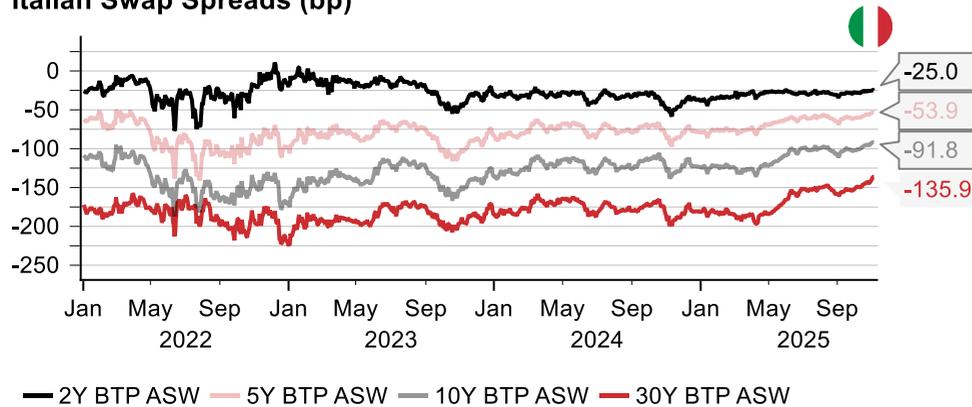
France is tricky due to politics – we wouldn't go long here

French Swap Spreads (bp)



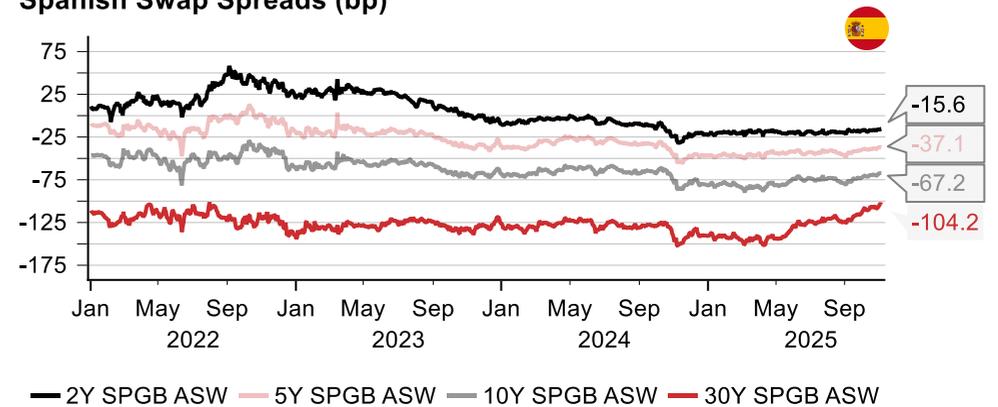
Italy looks rich and catalysts to see further performance are fading

Italian Swap Spreads (bp)



Spanish credit is offering good value in the front end

Spanish Swap Spreads (bp)





Swap spreads in detail

- **USD:** we expect deregulation will keep providing a bid to swap spreads over the coming months, unless USD rates vol spikes and bearish USD government credit flows resume.
- **GBP:** no widening likely until Gilts become much better bid again, which can happen if the BoE makes their reaction function clearer.

USD swap spreads looking ahead to deregulation news

USD Swap Spreads (bp)



Appetite for Gilts on ASW is not great given undecided BoE

GBP Swap Spreads (bp)



XCCY

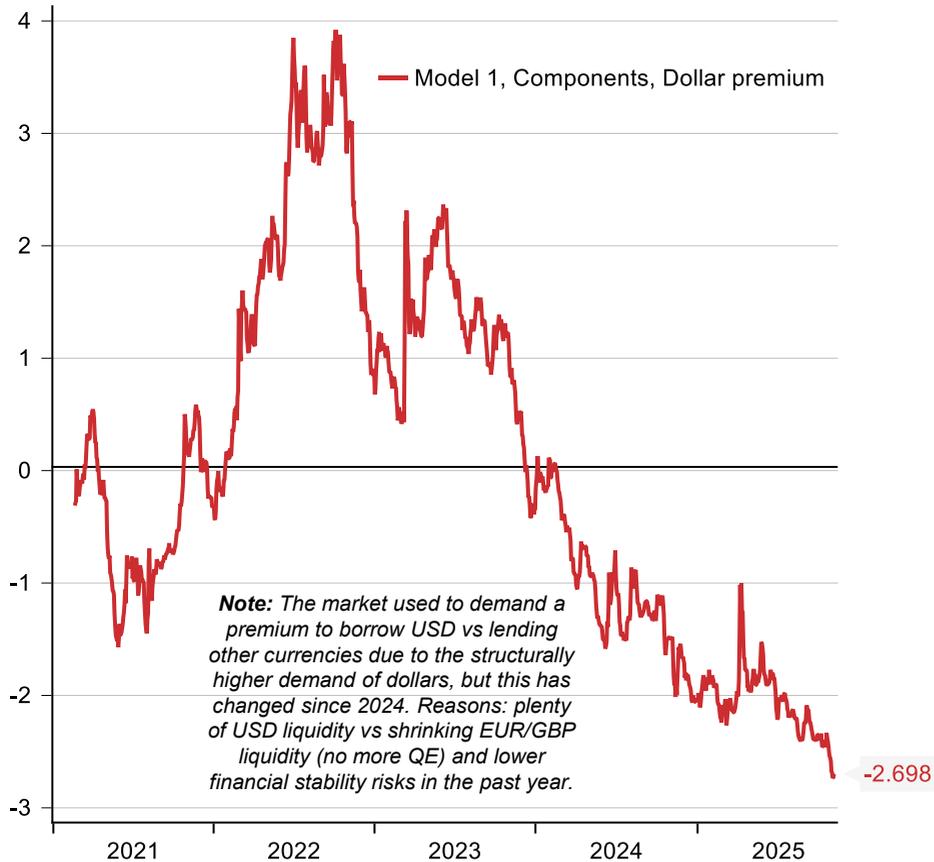


XCCY Basis views

- The dollar premium remains compressed. Liberation Day wasn't enough of a catalyst to bring it back.
- EURUSD XCCY is now driven by swap spread developments due to how important these are in terms of cross-border issuance decisions – the EURUSD XCCY curve looks too flat

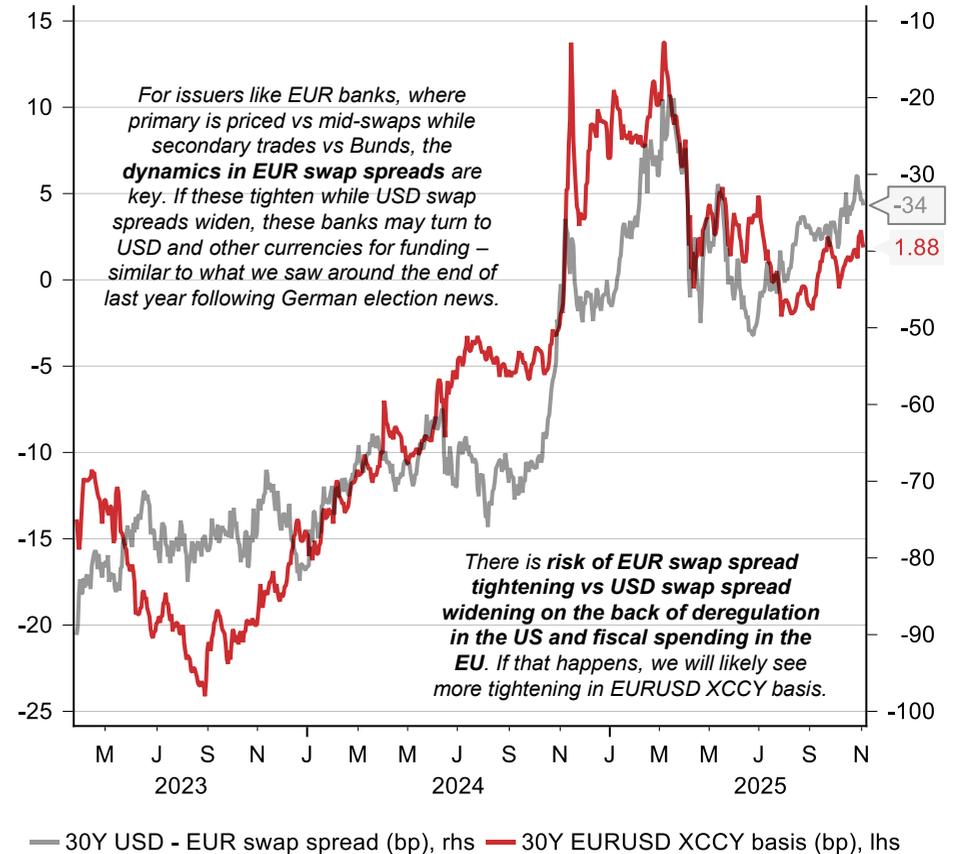
Borrowing dollars is not as costly as it was in 2022

Dollar premium proxy



EURUSD XCCY is now driven by swap spread differential

EURUSD XCCY: driven by swap spread differentials

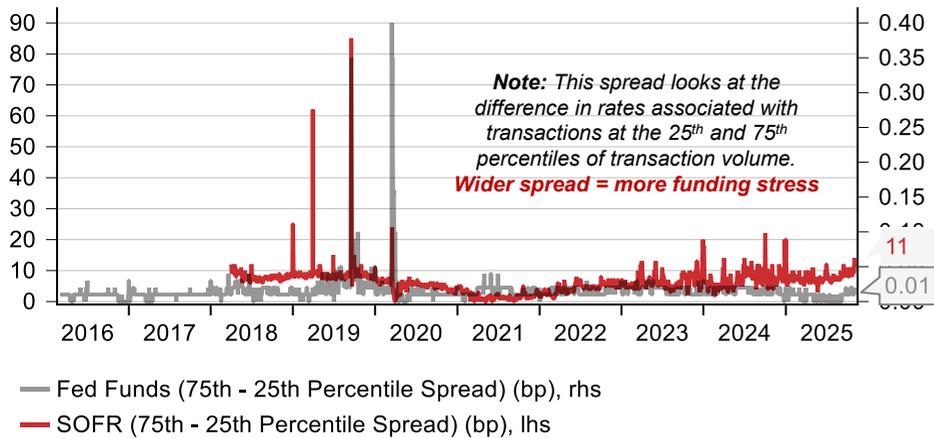




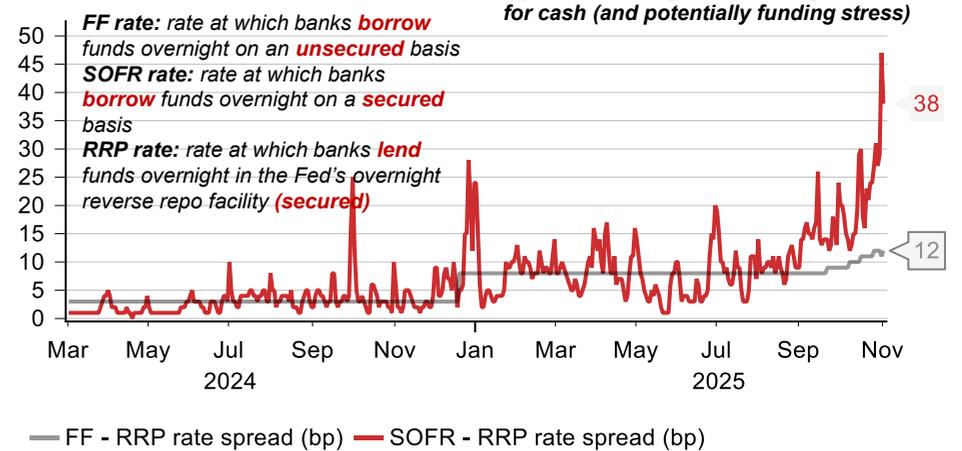
Quick glance at USD Funding markets

- Widening of funding spreads is creating worries and has pushed the Fed into stopping QT in Dec25

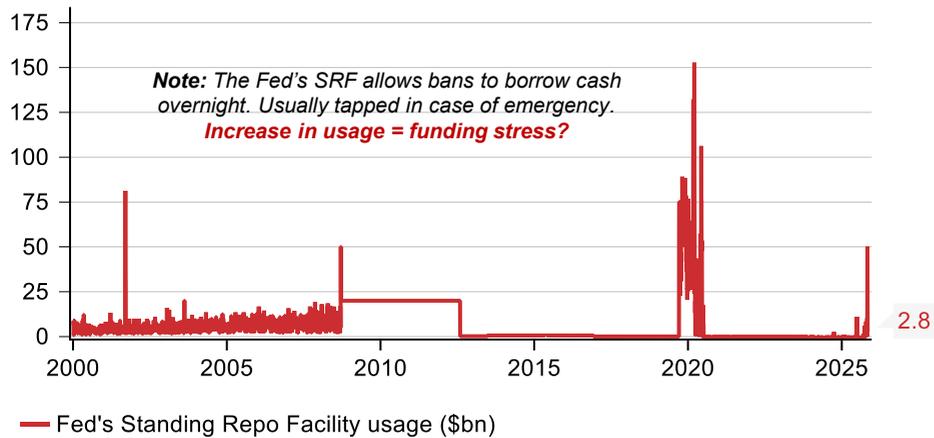
Fed Funds vs SOFR dispersion



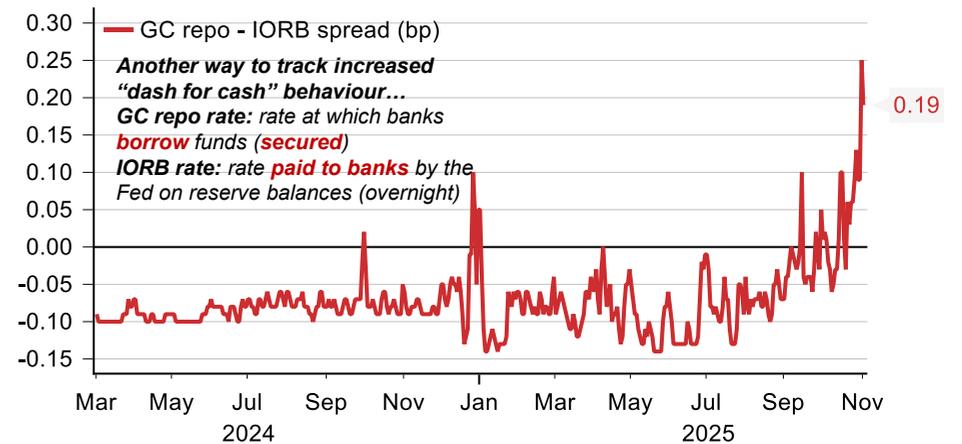
RRP spreads to SOFR and FF



Fed's Standing Repo Facility usage (\$bn)



GC repo vs IORB spread





XCCY Basis views

- The 2023-24 tightening is encountering some resistance in EURUSD, less so in USDJPY and GBPUSD. There has been a lot of reverse yankee issuance in EUR due to the tightening seen since 2024.
- Issuing in GBP looks especially attractive for EUR issuers in the front-end and belly.

EURUSD XCCY

EURUSD XCCY basis (bp)



EURGBP XCCY

EURGBP XCCY Basis (bp, GBPUSD - EURUSD XCCY)



Note: There are other considerations in the issuance/investment decision, but this is just to illustrate in a simplified way the XCCY impact

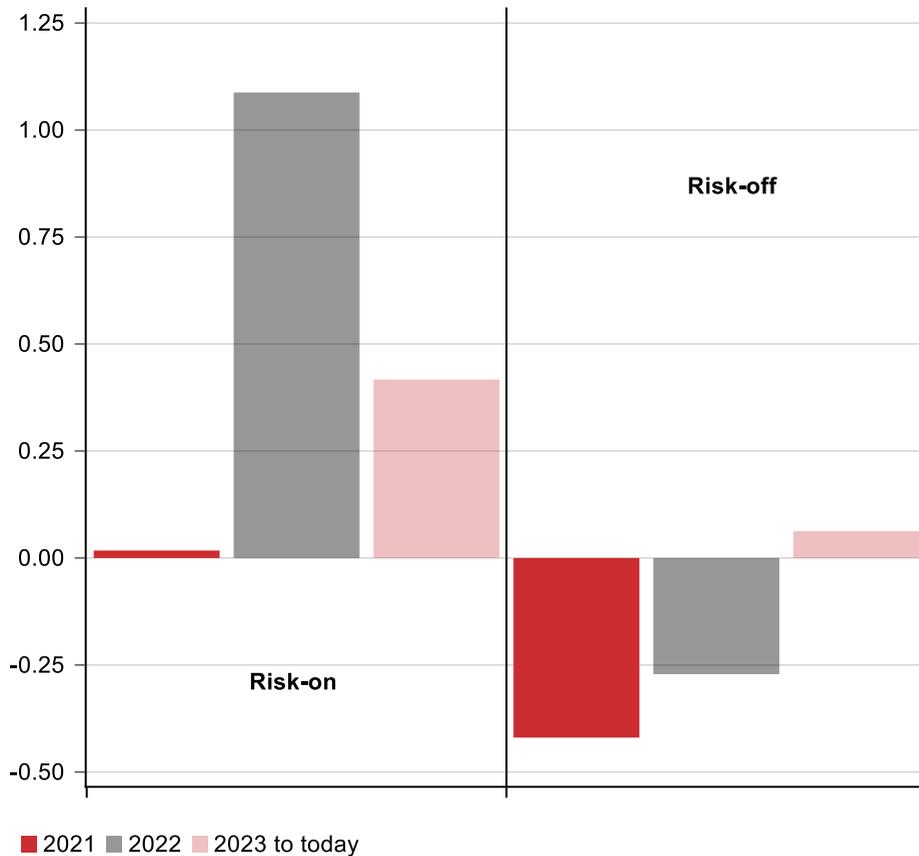


XCCY Basis views

- EURUSD XCCY is not as reliant to risk sentiment as before
- USDJPY XCCY also shows that risk-off is not that strong of a driver anymore. BoJ hikes are supporting the tightening.

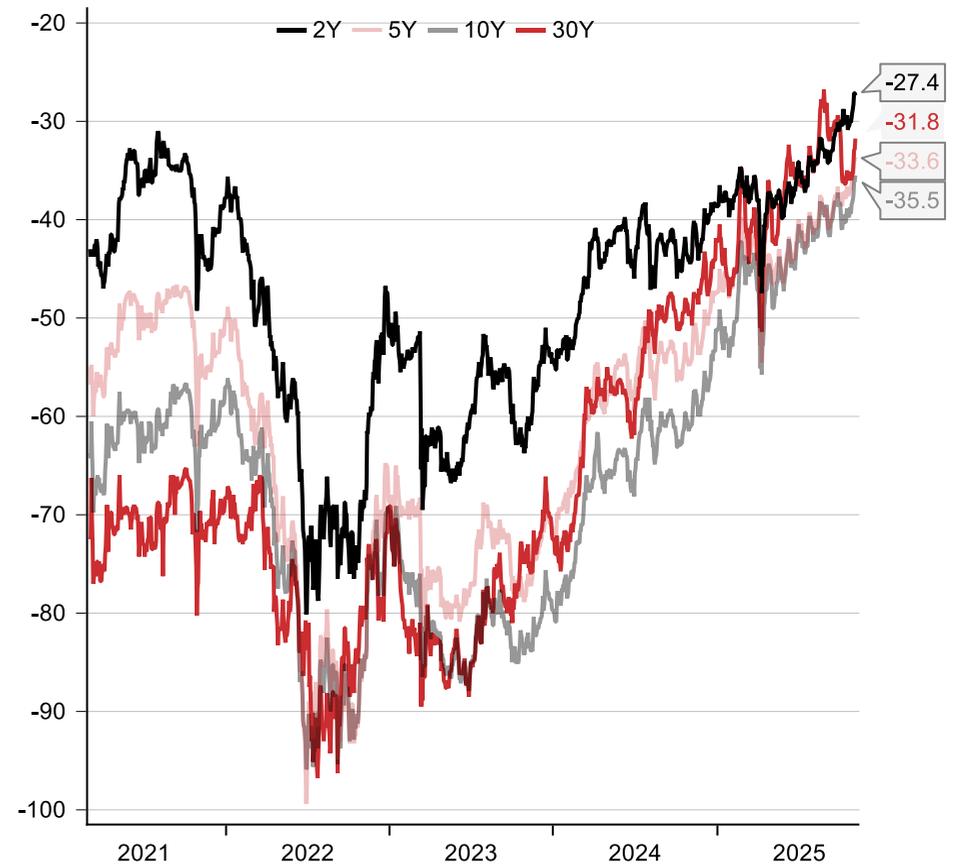
The beta to risk sentiment has decreased notably

EURUSD XCCY Beta to stocks (bp moves)



USDJPY has faded the Liberation Day widening

USDJPY XCCY basis (bp)



Credit Spreads

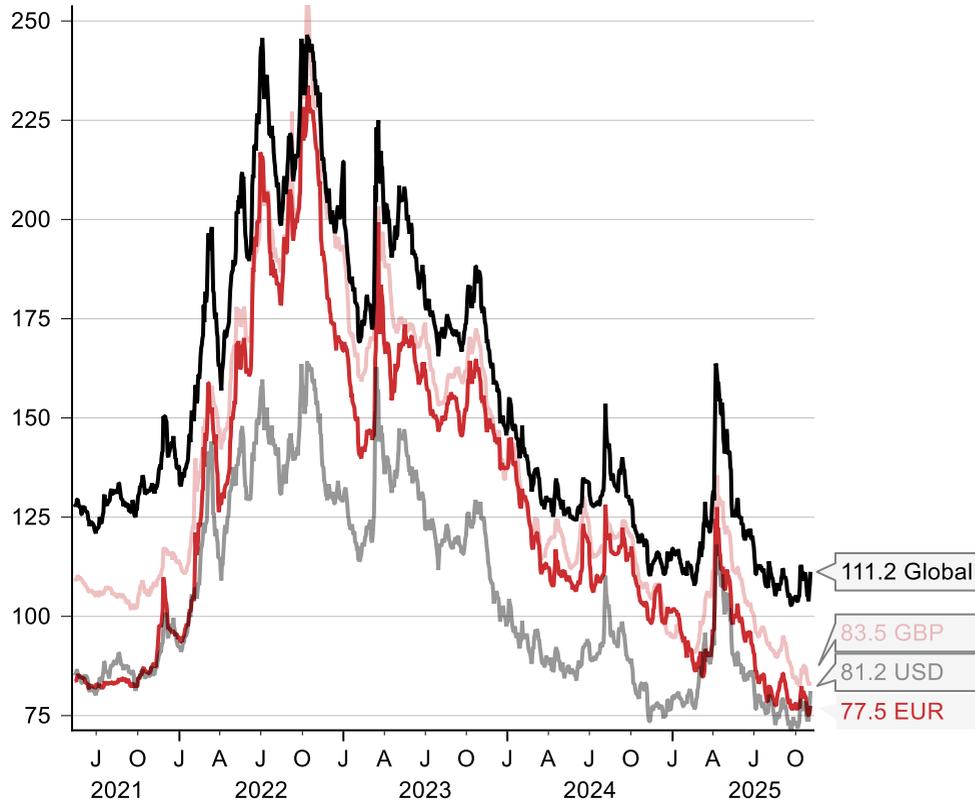


Credit spreads

- IG credit spreads (OAS, bps)
- HY credit spreads (OAS, bps)

IG Credit Spreads

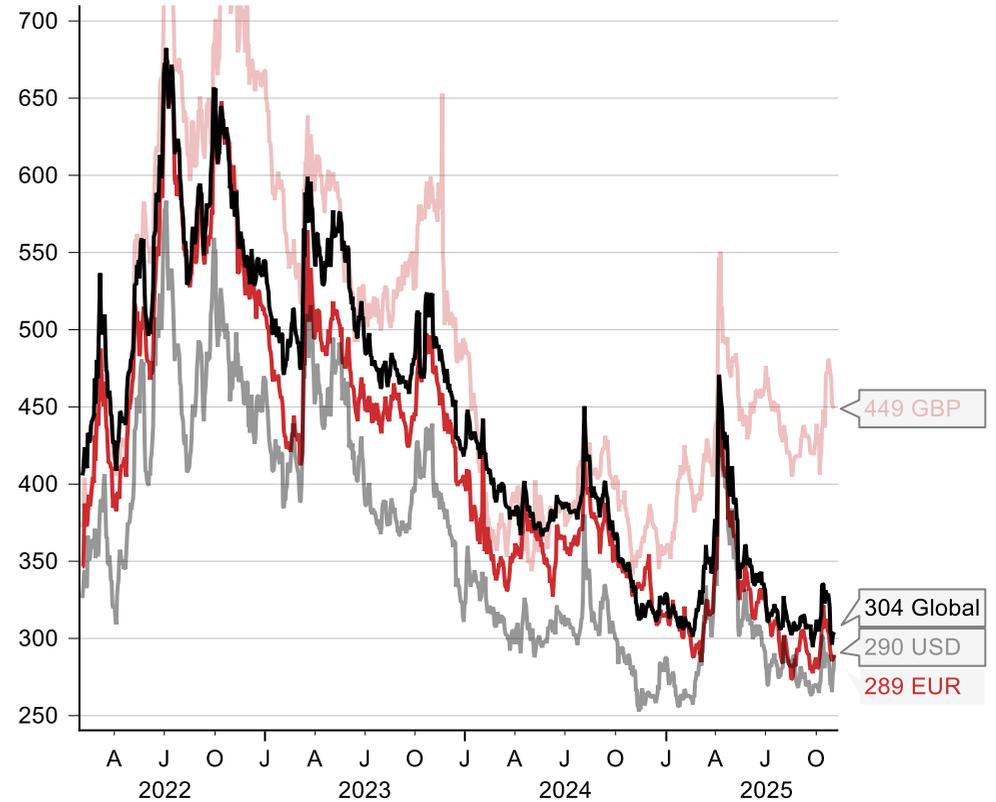
Investment Grade Credit - Global, Euro, US, Sterling (OAS-spread to tsy)



— Global Credit Corporate USD OAS — US Corporate USD, Index OAS
 — Sterling Corporate GBP, Index OAS — Euro Aggregate Corporate EU, Index OAS

HY Credit Spreads

High Yield Credit - US and European (OAS-spreads to tsy, bps)



— Global HY OAS — US HY USD OAS
 — GBP HY ex Fin Statistics OAS to Tsy — Pan-European HY OAS

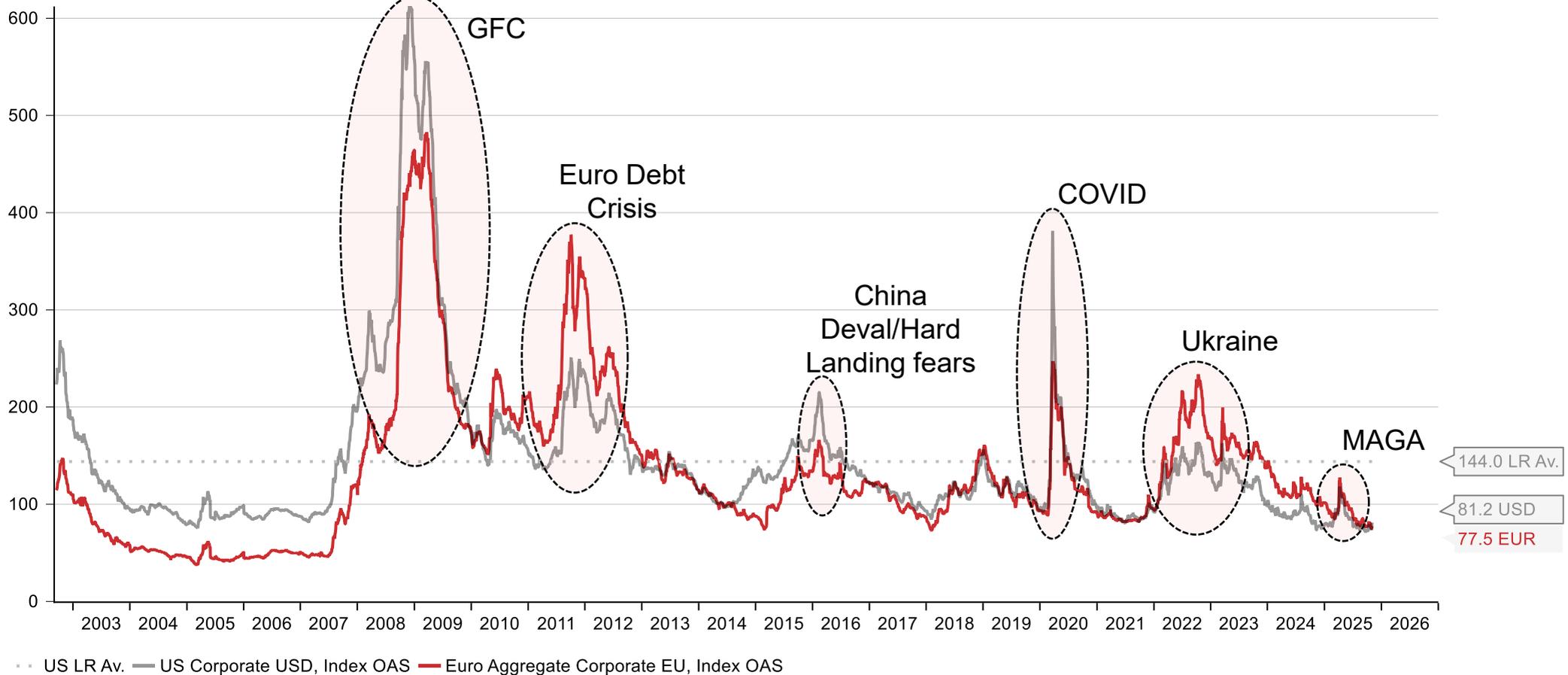


Credit spreads

- IG credit spreads (OAS, bps) – Longer History

IG Credit Spreads – Longer History

Investment Grade Credit (OAS-spread to tsy)

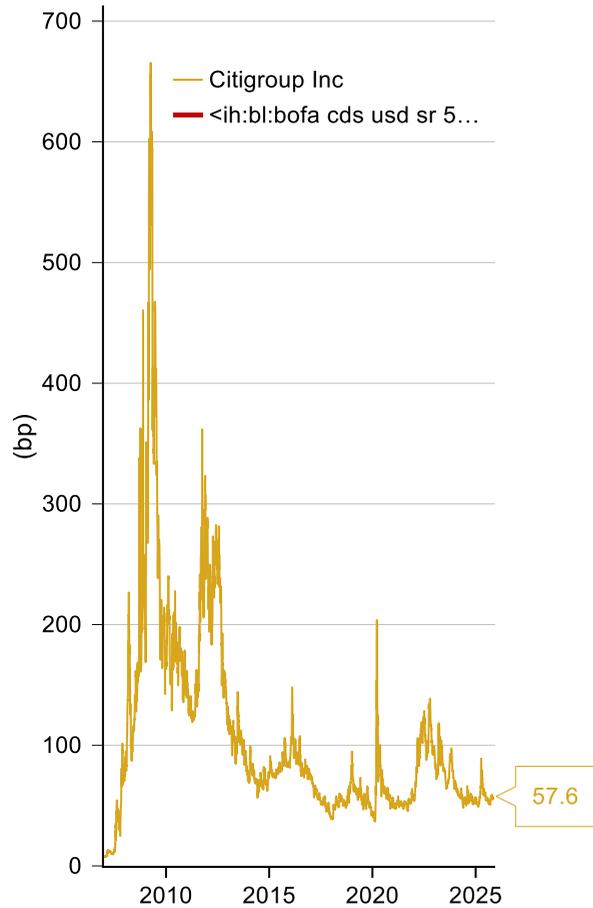




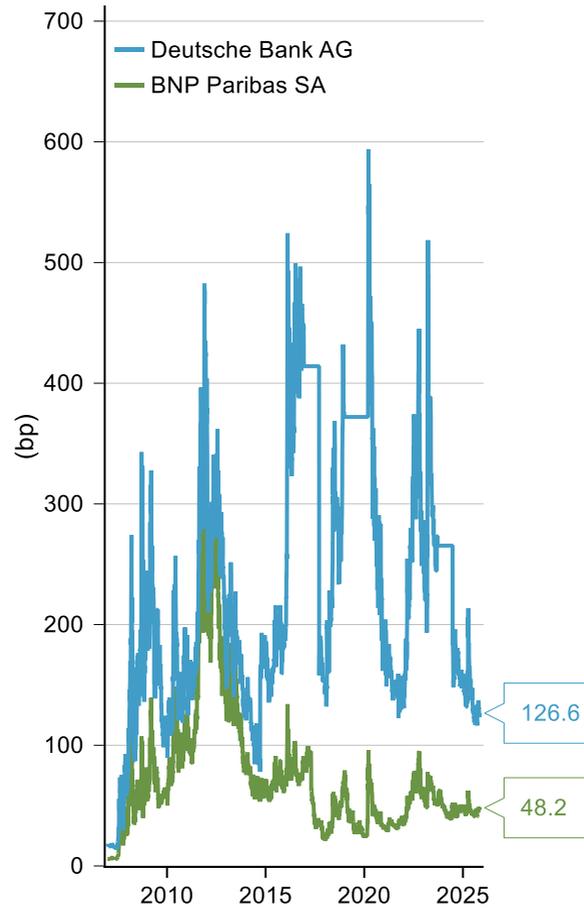
Credit - CDS of systemically important banks

- Banking CDS

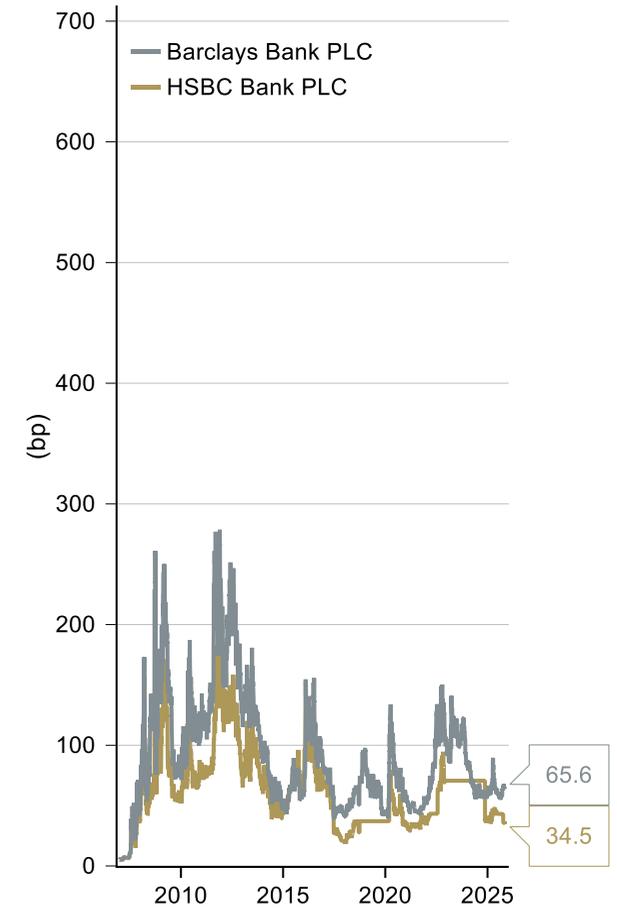
US



Germany, France



UK



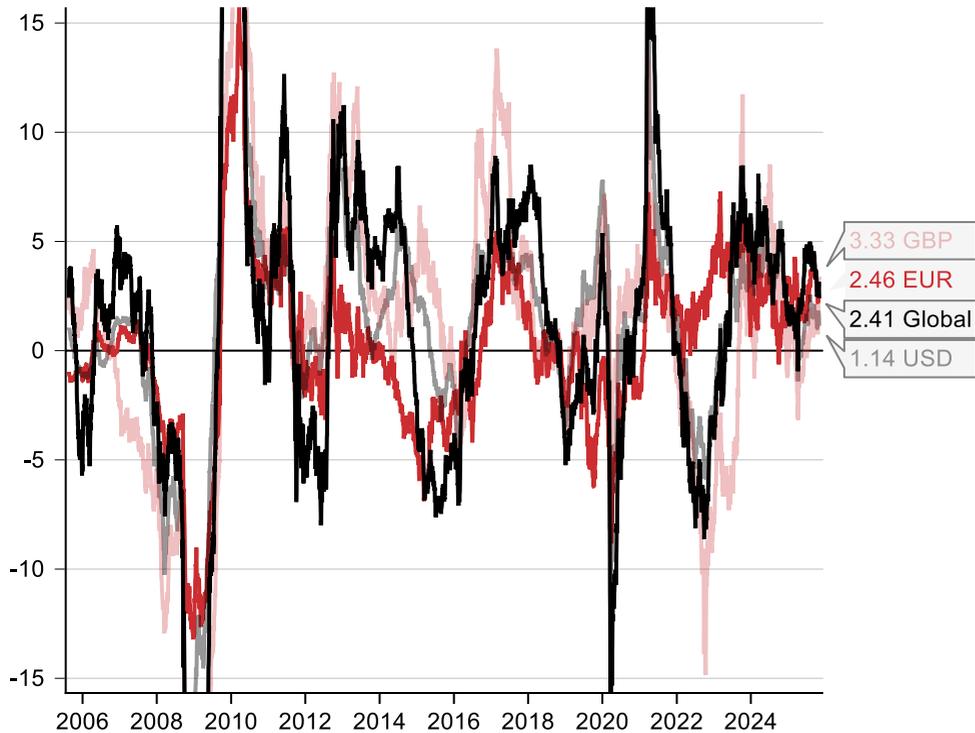


Credit excess returns

- IG credit index level excess returns
- HY credit index level excess returns

Investment Grade Credit y/y% returns

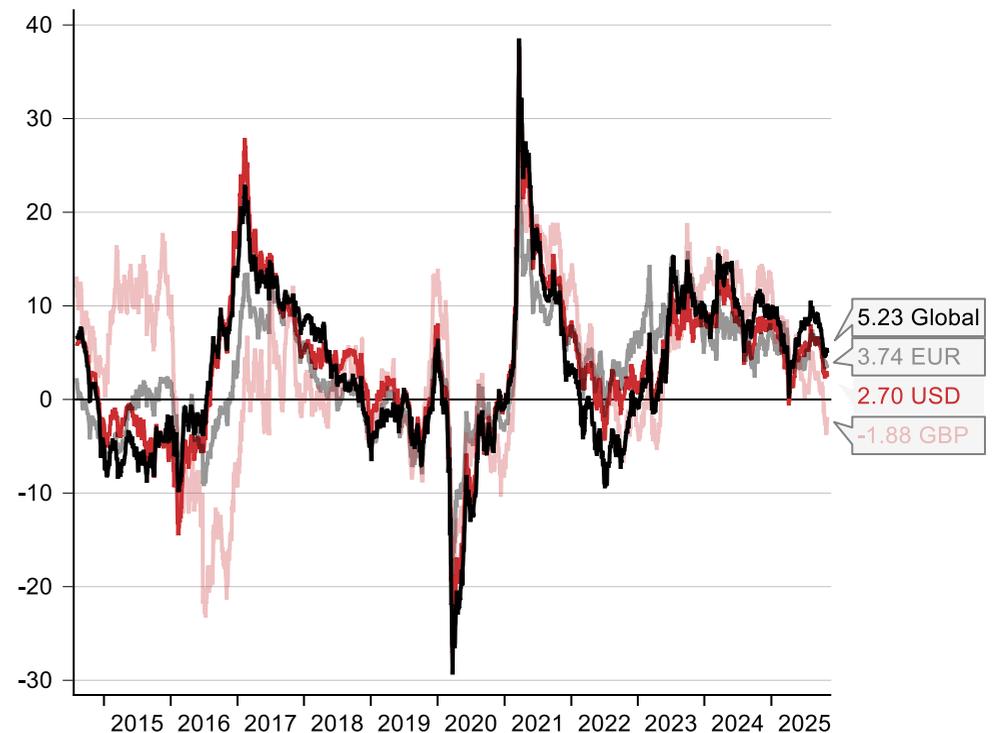
Investment Grade Credit y/y% excess returns (vs local treasury returns)



- Global Credit Corporate USD, Excess returns vs TSY
- Sterling Corporate GBP Index, Excess returns vs TSY
- US Corporate USD Index, Excess returns vs TSY
- Euro Aggregate Corporate EU, Excess returns vs TSY

High Yield Credit y/y% returns

High Yield Credit Index y/y% - excess returns (vs local treasury returns)



- Global HY USD, Excess returns vs TSY
- GBP HY ex Fin Statistics, Excess returns vs TSY
- Pan-European HY, Excess returns vs TSY
- US HY USD, Excess returns vs TSY

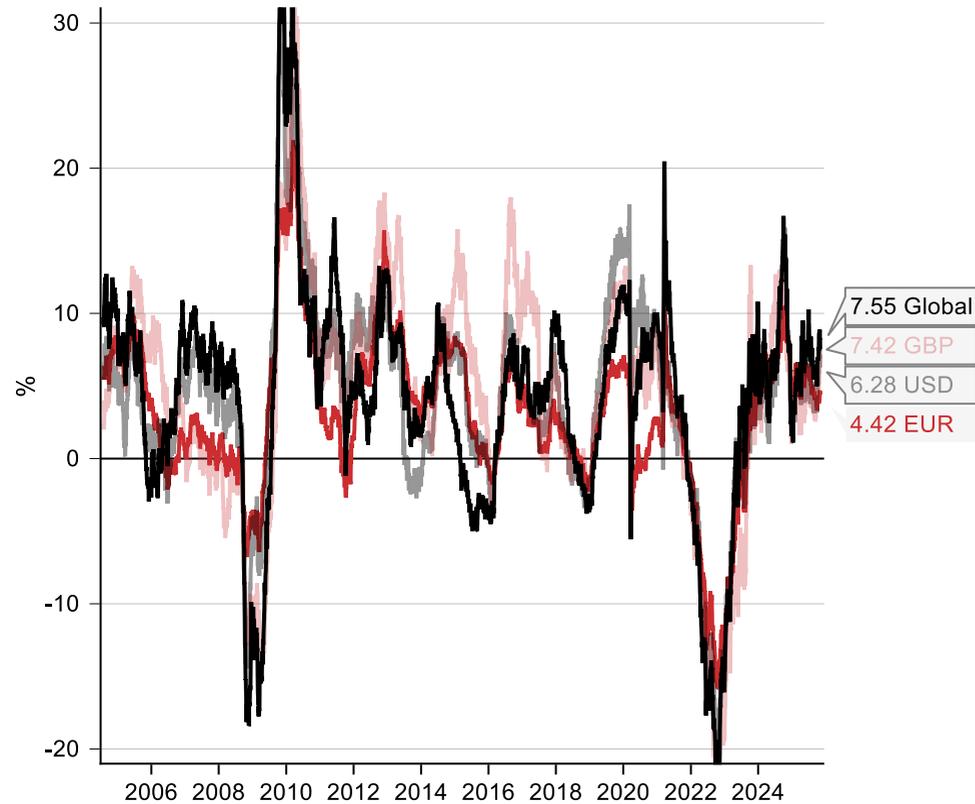


Credit returns

- IG credit index level returns
- HY credit index level returns

IG Credit y/y% returns

Investment Grade Credit Index y/y%



— Global Credit Corporate USD — US Corporate USD, Index
 — Sterling Corporate GBP, Index — Euro Aggregate Corporate EU, Index

HY Credit y/y% returns

High Yield Credit Index y/y%



— Global HY — GBP HY ex Fin Statistics — Pan-European HY — US HY USD

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