



2026 G4 Rates and FX Outlook

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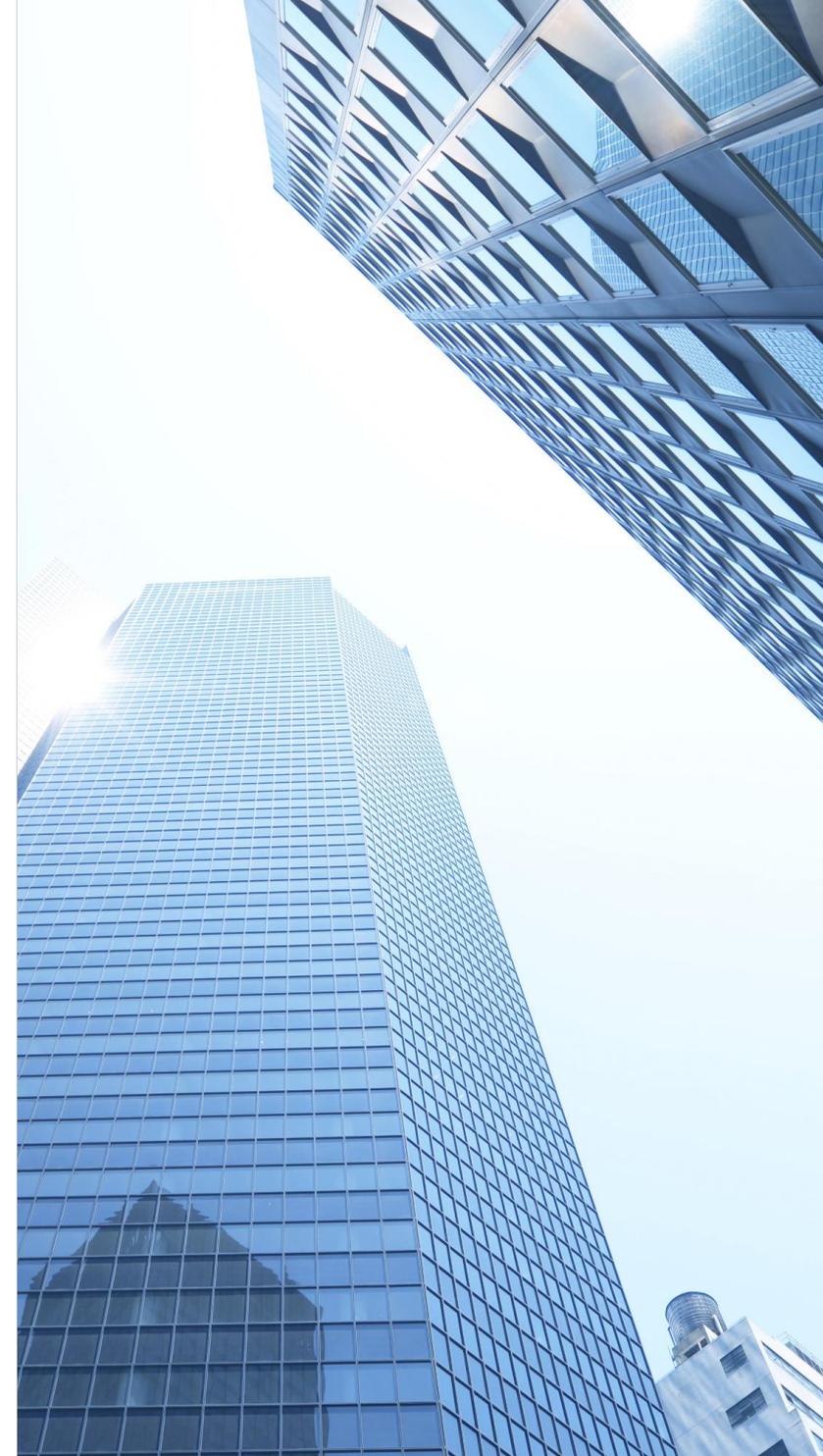
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Mizuho FX, Policy and Rates Forecasts

Policy rates	04-Dec	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	2.00	2.00	2.00	2.00	0bps
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		04-Dec	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
USTs	2Y	3.51	3.60	3.75	3.80	3.85	3.90
	5Y	3.66	3.80	4.00	4.15	4.25	4.35
	10Y	4.09	4.20	4.40	4.60	4.70	4.80
	30Y	4.74	4.80	5.00	5.25	5.35	5.45
Germany	2Y	2.07	2.00	2.00	2.15	2.15	2.20
	5Y	2.36	2.40	2.50	2.80	2.85	2.90
	10Y	2.76	2.85	3.00	3.35	3.45	3.50
	30Y	3.40	3.45	3.65	4.00	4.15	4.15
UK Gilts	2Y	3.75	3.65	3.50	3.40	3.50	3.65
	5Y	3.91	3.80	3.70	3.60	3.75	3.85
	10Y	4.46	4.40	4.30	4.15	4.30	4.50
	30Y	5.21	5.10	4.90	4.80	4.90	5.05
JGBs	2Y	1.02	1.05	1.15	1.15	1.20	1.25
	5Y	1.40	1.45	1.50	1.55	1.60	1.65
	10Y	1.93	2.00	2.15	2.25	2.30	2.40
	30Y	3.39	3.35	3.40	3.45	3.45	3.45

FX	04-Dec	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
EUR/USD	1.17	1.15	1.18	1.19	1.20	1.22
USD/JPY	155	158	154	152	150	147
GBP/USD	1.34	1.29	1.31	1.31	1.32	1.33
EUR/GBP	0.87	0.89	0.90	0.91	0.91	0.92
EUR/JPY	181	182	182	181	180	179
GBP/JPY	207	204	202	199	198	195
DXY	99	100	98	97	96	95

The view

- Policy:** One more Fed cut this year, on hold in 2026 (risk of one more cut) BOE and ECB to stay on hold (if data remains strong), 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 weakness into 2026. EUR to keep climbing following the 2017 playbook but it's a consensus trade that will face pullbacks. Global growth rising = USD weakness.

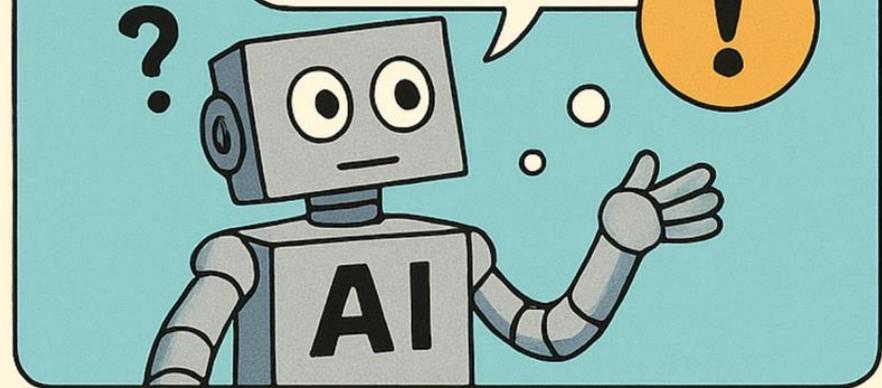


5 Questions for 2026

WILL THE NEW FED CHAIR TAKE US TO 2% TERMINAL



IS AI A BUBBLE THAT WILL SOON POP?



HAS JAPAN'S FISCAL AND MONETARY POLICY MIX IED TO A BUYERS' STRIKE IN JPY AND JGBs?



IS GERMANY ESCAPING ITS INDUSTRIAL RECESSION VIA FISCAL SPENDING, OR WILL IT BE TOO SLOW TO ROLL OUT



WILL THE BOE HAVE TO CUT RATES FASTER TO AVOID PRONOUNCED JOB LAYOFFS?





5 Questions for 2026

1. Will the new Fed chair take us to a 2% terminal rate?

Not on their own but rising unemployment could make it so. It's more likely Powell will keep rates on hold in Q1 off the back of a recent set of cuts, allowing for the new Fed chair to make their mark in 2026. We suspect the market will continue to use 3% as the anchor for end 2026 pricing and perhaps toy with a move below that to the mid 2's in 2027 if the trends in Labour markets persist. But we're coming off the back of monetary and fiscal easing, so where is the recession risk coming from? Our US Economics team (Ricchiuto) expect a rate cut in Dec; but no cuts in 2026 as fiscal stimulus effects feed through. Will markets be proven wrong?

2. Is AI a bubble that will soon pop?

This early in the adoption cycle (only ~10% of US firms currently employing AI) makes it hard to argue we've reached "peak AI." With monetary and fiscal policy easing in 2025/26 also making it hard to expect recession risks for growth proxies. Disruption and labour displacement probably come before the AI secular trend ends. We've not yet seen the full story. Our first concern is the impact this will have on the Labour market, youth unemployment in the US is spiking, will others follow?

3. Has Japan's Takaichi fiscal and monetary policy mix led to a buyers strike in JPY and JGBs?

In the short term, yes. For quite some time JGBs have required foreign investor participation with domestic buyers concerned about the direction of BoJ and fiscal policy. We need the BoJ to be given the room to hike rates and their independence made clear on the pace of the cycle before JGBs find a sustained bid. 2026 will be a tough year for Duration globally with higher levels of issuance expected in the US and Europe too.

4. Is Germany escaping its industrial recession via fiscal spending, or will it be too slow to roll out?

The change in German spending is a big deal; issuance will rise and it's harder for the ECB to argue for rate cuts. But Defence and infrastructure spending only gets you so far and higher levels of competition in car manufacturing and a weak consumer might hold Germany back. For now, the narrative is the ECB on hold in 2026, but they may have some deteriorating data in Q1 2026 if tariffs finally begin to bite. We prefer to look to 2027 trades where we can credibly see a mild rate hiking cycle being possible.

5. Will the BoE have to cut rates faster to avoid pronounced job layoffs?

If it wasn't for the budget the BoE would likely have cut rates in November in our view. The slowdown in the housing market, rising layoffs and a tighter fiscal plan will likely see the BoE cut rates to 3% next year. The question is whether this is enough to avoid a rising unemployment rate with higher employer costs but also the age of AI adoption, as service-based roles are in the crosshairs. 2025 was the year of administered price hikes, fiscal fragility and a more hawkish BoE than expected, could 2026 reverse that? We suspect so.



The Quick take and Core views for 2026 for the US and Euro Area

- **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**. 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:** Strong PMIs reduce chance of another ECB cut.
 - **Duration: 10yr Bunds to retest 3.00% in 2026**, slightly too early to talk about hikes but it's a 2027 story to come.
 - **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 spread convergence to remain except in OATs; OATs face politics (75–90bp), BTPs shielded thanks to ongoing fiscal 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:** December USD weaker seasonality and 2026 German fiscal spending cap sustained USD upside despite some US exceptionalism creeping back in; while the Fed Chair choice adds volatility. Outperformance of EUR in 2025 was rapid but gains slow from here. We see **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 as the long EUR/USD remains rather consensus.



The Quick take and Core views for 2026 for the UK and Japan



The Cycle: Growth in the UK is set to disappoint BoE forecasts with the Service sector suffering from budget induced tax hikes but also a structurally slower housing market that will have second round effects for tertiary industries. We expect to see UK underperformance in 2026 and see **UK Inflation risks skewed to the downside.**

- **The BoE:** We expect the BoE to cut rates in December by 25bps and then follow a quarterly path (at MPR meetings) until July at 3% the mid-point of neutral assumptions by the BoE. The risks to that are to the downside; not the upside in our view.
- **Rates:** We see 10Y Gilts breaking the lower end of their 4.35–4.85% range that has held for most of the year. The shift away from long-term issuance will continue to drive the flattening of the long end segment, before political risk takes over again.
- **FX:** With the USD on the back foot and global growth momentum improving, GBP is positioned to outperform but a dovish BoE outlook holds it back vs EUR and JPY. We expect EUR/GBP to drift toward 0.92 by Dec-26, while GBP/USD holds around 1.31 to 1.33 through 2025–26 thanks to USD weakness and Global growth holding up.
- **Politics:** The Labour party is polling below the Reform and tied with the Conservative party and losing what remaining votes they have to the Greens we expect a weak showing in Local elections in May 2026 could trigger a leadership contest for the Labour party.



The Cycle: Growth has recently slowed after a healthy recovery, but surveys have held up near historical highs for Services and accelerated for manufacturing. The near-term risks lie to the downside for services if Japan-China tensions remain and tourism takes a hit (Chinese tourism ~0.2% of GDP); but inflation has been stubbornly strong and recent JPY weakness remains a problem.

- **The BoJ:** The data justifies a hike in Dec or Jan, then July and the potential for a 1.5% terminal in 2027 if Japan has truly escaped the deflation trap (we suspect it has). But politics could lead to waves of dovish uncertainty if an election is called in the Spring.
- **Rates:** Bearish pressure should persist in JGBs (10yr to 2.4%) as hawkish BoJ communication drives repricing and coming fiscal stimulus is factored in. The super long end to remain shielded on further super long-term issuance cuts from the MoF.
- **FX:** We expect BoJ hikes will stem the JPY weakness and lead to a lower USD/JPY in 2026 but would avoid trading that view until Q2 of 2026 when the decisions by the new Fed chair become clear and the risk of an election in Japan subsides. USD/JPY to 147 by Dec-26.
- **Politics:** We expect an election becomes more of a risk for Spring 26. Then we need to look at the impact on monetary policy, FX and Geopolitics. Will Takaichi adopt a platform willing to tolerate BoJ rate hikes next year? Will the FM Katayama intervene in the FX market and sell USD/JPY at 158-162? And how long will the current fallout between Japan and China over the Taiwan issue last?

Event Risks ahead (G4)

Timeline of risk events:

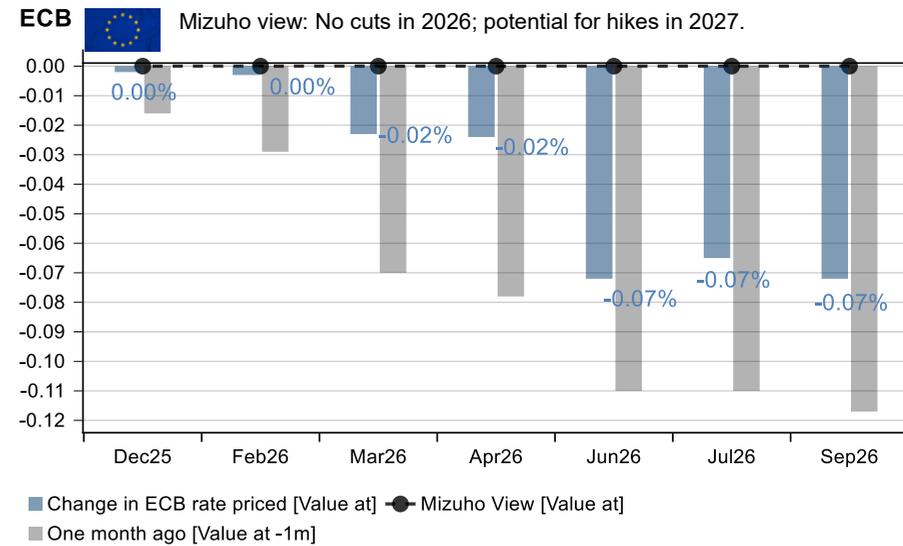
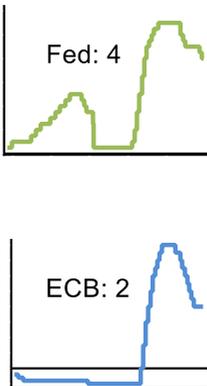
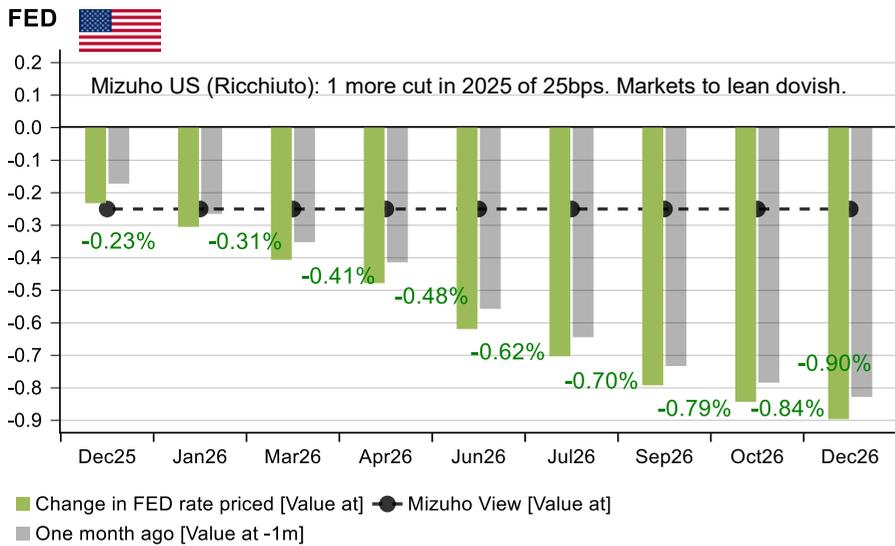
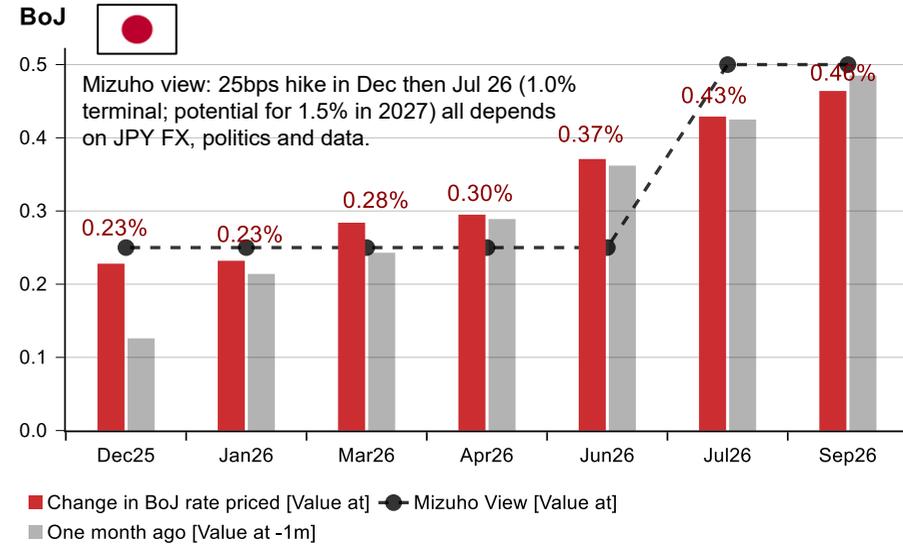
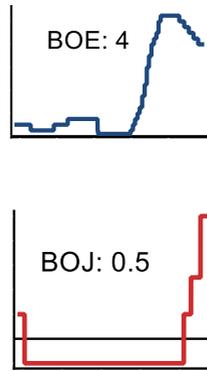
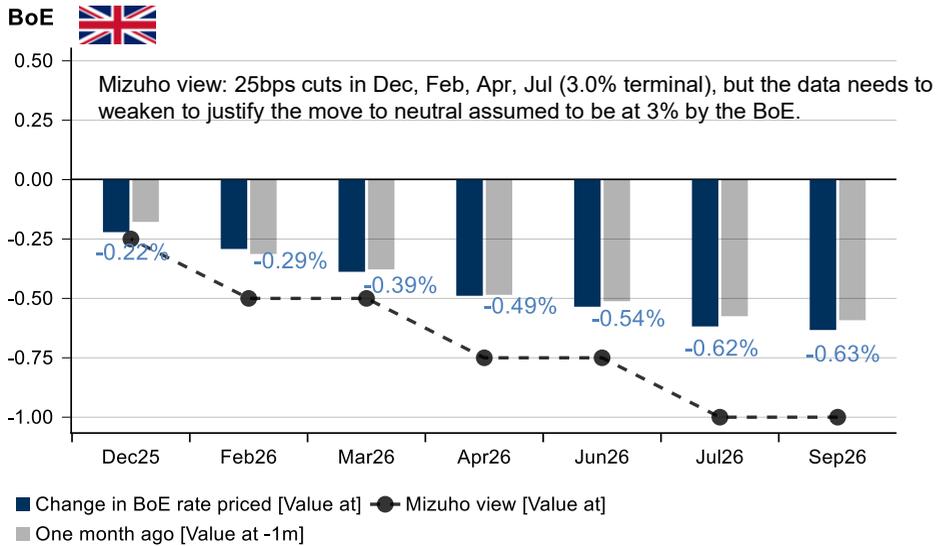
December 2025

- **10 Dec: FOMC Meeting**
- **11 Dec: Vote on first part of France draft budget law**
- **18 Dec: US CPI (Nov), US Real Earnings (Nov)**
- **18 Dec: OPEC+ Ministerial Meeting**
- **18-19 Dec: Final European Council meeting of the year**
- **19 Dec: France - Decrees to keep spending levels into next year (article 47)**
- **Dec: Final vote on the France draft budget law**
- **Dec: Japan Supplementary Budget Bill**
- **Dec: China Central Economic Working Conference**
- **Late Dec: BOJ's Ueda speech at Keidanren**
- **Late Dec: Japan Government cabinet expected to approve FY26 budget**
- **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

- **21 Jan: Supreme Court hearing on Lisa Cook's Fed Governor post**
- **28 Jan: FOMC Meeting**
- **30 Jan: US stopgap funding expires**
- **Early 2026: Supreme Court Ruling on IEEPA Tariffs**
- **Early 2026: Basel II Timing (Bowman suggesting eSLR first, then GSIB surcharge, stress capital buffer and then Basel III)**
- **Feb: War in Ukraine enters its 4th year**
- **7 May: UK Local elections**
- **15 May: End of Fed Chair Jay Powell's term**
- **Jun/Jul: FIFA World Cup, hosted by US, Canada and Mexico**
- **Jul: Review of the USMCA Agreement**
- **14-16 Jun: G7 Summit in France**
- **7-8 Jul: Nato Summit in Turkey**
- **3 Nov: US Midterm elections (House, Senate, State Legislatures, Governors)**
- **Nov: APEC China 2026**
- **Nov: The statutory limit on the Treasury's debt may be reached**

What's priced in?



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]** Long ESTR Z6Z7 steepeners - Entry: 0.193%; Target: 0.3% (by end Mar26); Stop: 0.15%.
- **[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.

GBP:

- **[STIRT]** Long SFIZ6 vs SFRZ6; Entry: -0.60%; Target: -0.20% (by end-Nov); Stop: -0.70%.
- **[STIRT]** Long SFIM6U6; Entry: -0.065%; Target: -0.125%; Stop: -0.00%.
- **[Curve]** Long UK-US 2s5s box steepener; Entry: 10bps; Target: 30bps by end Dec; Stop: 0bps.
- **[Spreads]** Long 10Y Gilt vs 10Y UST. Entry: 41.4bps; Target: 10bps (by end-Dec); Stop: 62bps, Carry +0.88bps/mth
- **[Curve]** UK 5s30s Flattener. Entry: 83.7bps; Target: 64bps (by end-Mar); Stop: 96bps, Carry +0.5bps/mth

JPY:

- **[STIRT]** BoJ to hike ahead. Pay JPY 1y1y. Entry: 85bps; Target 125bps, by end-Dec; Stop 90bps.
- ***New*** **[Curve]** Short 10Y on 2s10s30s fly. Entry: -57.5bps; Target -15bps (by end-Jun); Stop: -80bps. C&R/month = +2.4bps p/m.

2026's Risks and Grey Swans

THE GREY SWAN

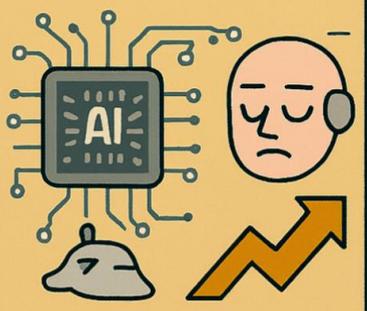
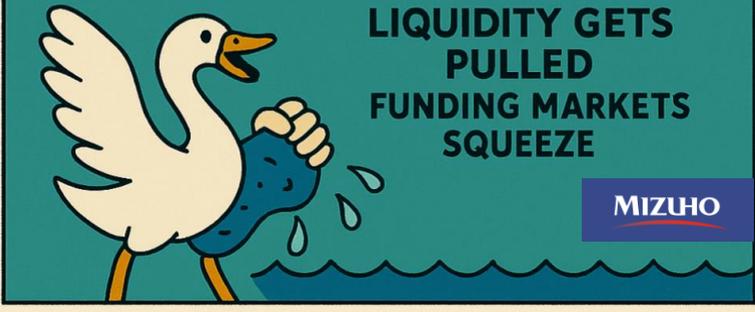
A low-probability,
high-impact event





What is a Grey Swan? While true black swans defy prediction, their lesser-known cousin grey swans are imaginable low-probability shocks outside the base case.

2026 Risks on our mind – 10 Grey Swan events – Low probability; high-impact

<h2>2026 GREY SWAN EVENTS</h2> <p>LOW PROBABILITY, HIGH IMPACT EVENTS</p>		<h3>UK LEADERSHIP CHANGE</h3> 	<h3>QUANTUM COMPUTING; AI BUST; PRODUCTIVITY BOOM</h3> 
<h3>NEW FED CHAIR DOESN'T PLAY BY THE RULES</h3> <p>YCC IS BACK</p> 	<h3>PEACE IN-UKRAINE-RUSSIA</h3> 	<h3>COCKROACHES IN THE WOODWORK: PRIVATE CREDIT CRACKS EMERGE</h3> 	<h3>OPEC+ PRICE WAR; OIL FALLS 50%; NEGATIVE RATES IN EUROPE?</h3> 
<h3>LE PEN FOR PRESIDENT</h3> 	<h3>GERMANY OVERHEATS</h3> 	<h3>LIQUIDITY GETS PULLED FUNDING MARKETS SQUEEZE</h3> 	
			



What is a Grey Swan? While true black swans defy prediction, their lesser-known cousin grey swans are imaginable low-probability shocks outside the base case.

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 rises from fiscal spend; but financial conditions on alert.

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. Youth unemployment rises?

8. Cockroaches in the woodwork; Private Credit Cracks Emerge

- **Markets:** S&P 500 down 20%; Fed cuts 50bps to 2%. USD pops on risk-off, then fades as easing kicks in. UST 10yr drops to ~3%.
- **Growth:** Credit crunch slows investment and hiring; late-cycle dynamics trigger broader slowdown.

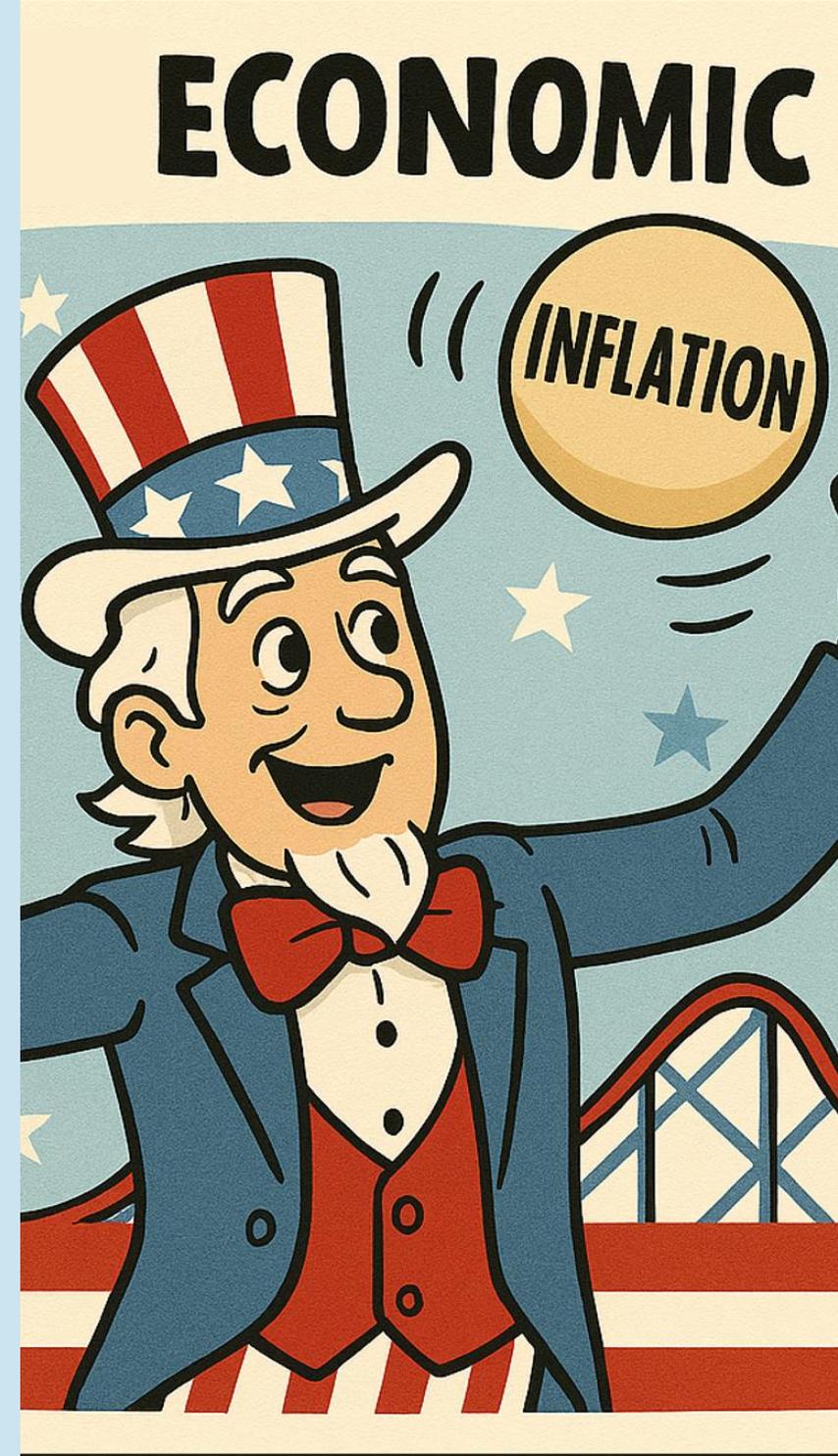
9. OPEC+ price war; Oil falls 50%; negative rates in Europe?

- **Markets:** Oil and gas prices plunge; ECB cut to near 0%; rates curves price in risk of negative rates.
- **Inflation:** Inflation drops to near zero in Europe; commodity linked FX under pressure; energy equities selloff.

10. Liquidity gets pulled; funding markets squeeze

- **Markets:** Repo and dollar funding stress spikes; risk assets sell off; volatility spikes across rates and credit. Cross-currency basis widens, making USD assets costlier to hedge. Risk assets sell off as funding strains bite.

2026 US Outlook





Economic and Monetary policy outlook for the US in 2026

USD: A new Fed chair, weaker Labour markets but resilient economy. 3% to act as an anchor point for 1y1y.

- **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 keep CPI around 3% by April 26, then decline back to a mid-2% handle by Dec 26 into 2027.
- **The Fed:** Despite inflation being above target 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 with weaker Labour markets. The market currently expects 3 more rate cuts in the new year (after the one remaining cut 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 point, but risks are tilted to the downside** 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. **Swap spreads, especially the front-end and belly, to remain supported and widen in 2026 thanks to the deregulation reform that is set to come in Q1-26.**
- **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 expect 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**. But falling European data surprises is a reason to be cautious with the move.
- **Politics:** With the OBBA Act behind us political market influence will stem from trade talk tensions and **the choice of the Fed Chair**. 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:

December 2025

- **5 Dec:** US PCE (Sep)
- **9 Dec:** US JOLTS (Oct)
- **10 Dec: FOMC Meeting**
- **10 Dec:** US Employment Cost Index (Q3)
- **16 Dec:** US Employment Cost Situation (Nov)
- **18 Dec:** US CPI (Nov)
- **18 Dec:** US Real Earnings (Nov)
- **19 Dec:** US County Employment & Wages (Nov)
- **19 Dec:** US Consumer Expenditures (2024 Annual)
- **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%
- **21 Jan:** Supreme Court hearing on Lisa Cook's Fed Governor post
- **28 Jan: FOMC Meeting**
- **30 Jan:** US stopgap funding expires
- **Early 2026:** Supreme Court Ruling on IEEPA Tariffs
- **Early 2026:** Basel II Timing (Bowman suggesting eSLR first, then GSIB surcharge, stress capital buffer and then Basel III)
- **Feb:** War in Ukraine enters its 4th year
- **28 Feb: Fed's Bostic term ends**
- **Mar:** Various tariff investigation deadlines under Section 232. Polysilicon and derivatives, aircraft systems (28 Mar)
- **15 May: End of Fed Chair Jay Powell's term**
- **May:** Various tariff investigation deadlines under Section 232. PPE, Robotics and Industrial Machinery (30 May)
- **May:** Trump Visits Xi in China
- **Jul: Review of the USMCA Agreement**

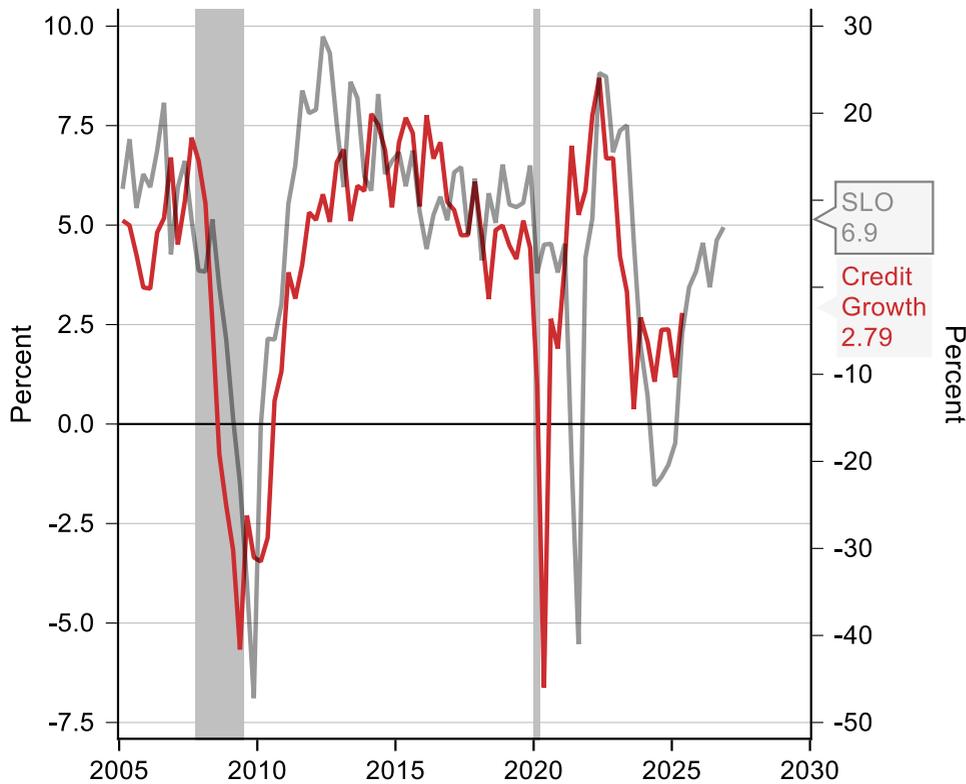


US Growth – to rebound?

- 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

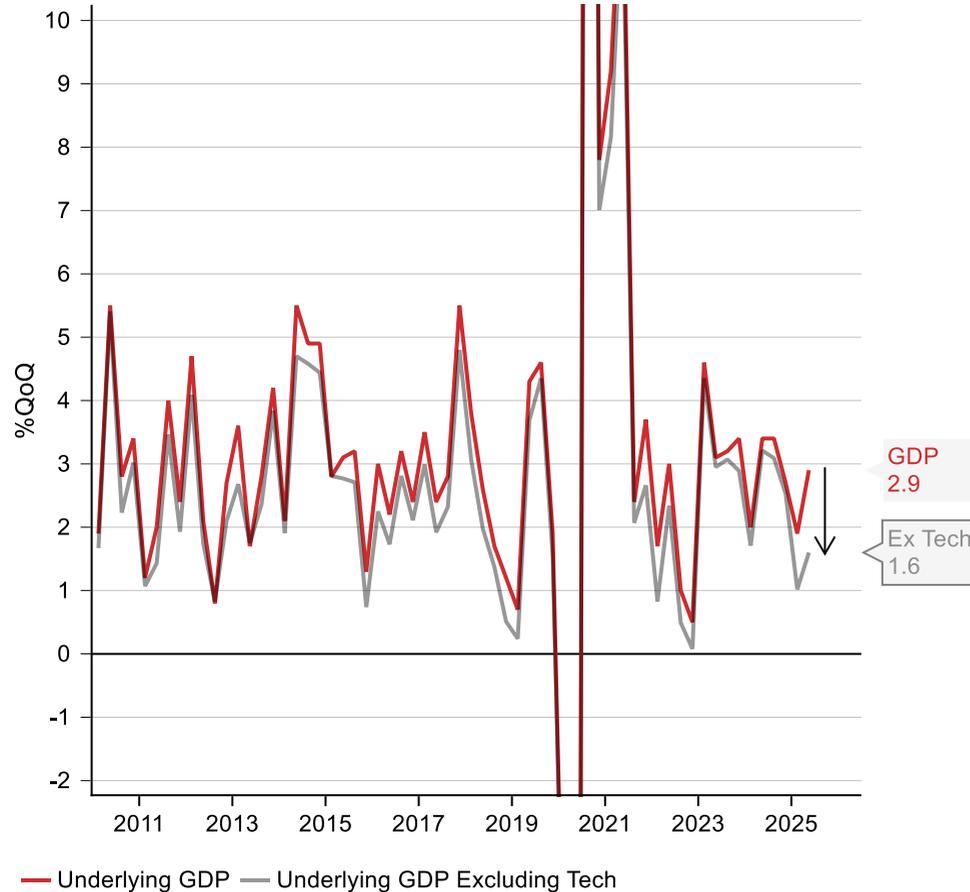


AI Growth – The Impact of AI and its influence on the growth numbers

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

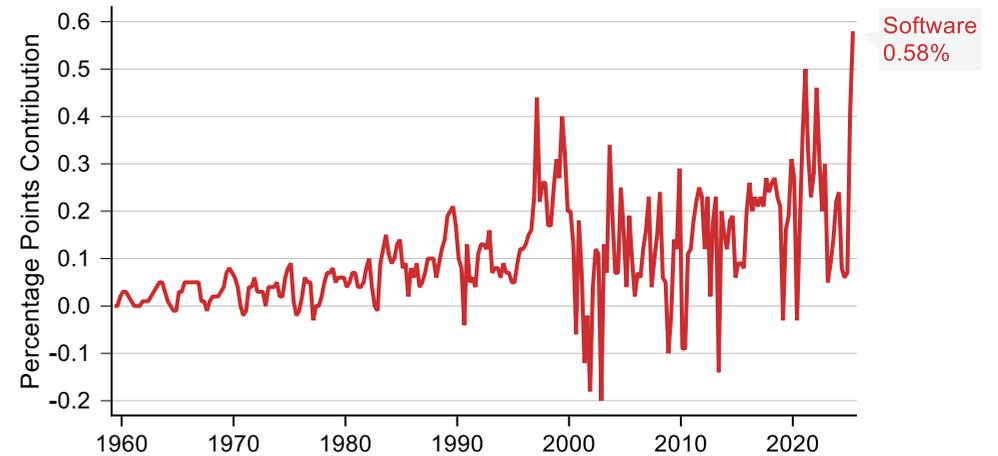
US GDP excluding Tech would be lower

US, Underlying Real GDP Growth (%QoQ SAAR)

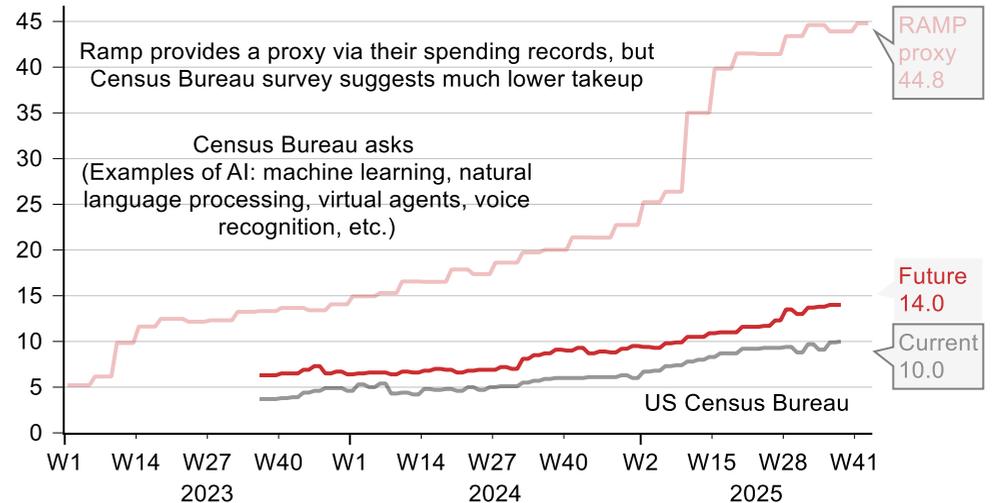


AI is still in the rollout phase – only 10% of firms use it?

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.

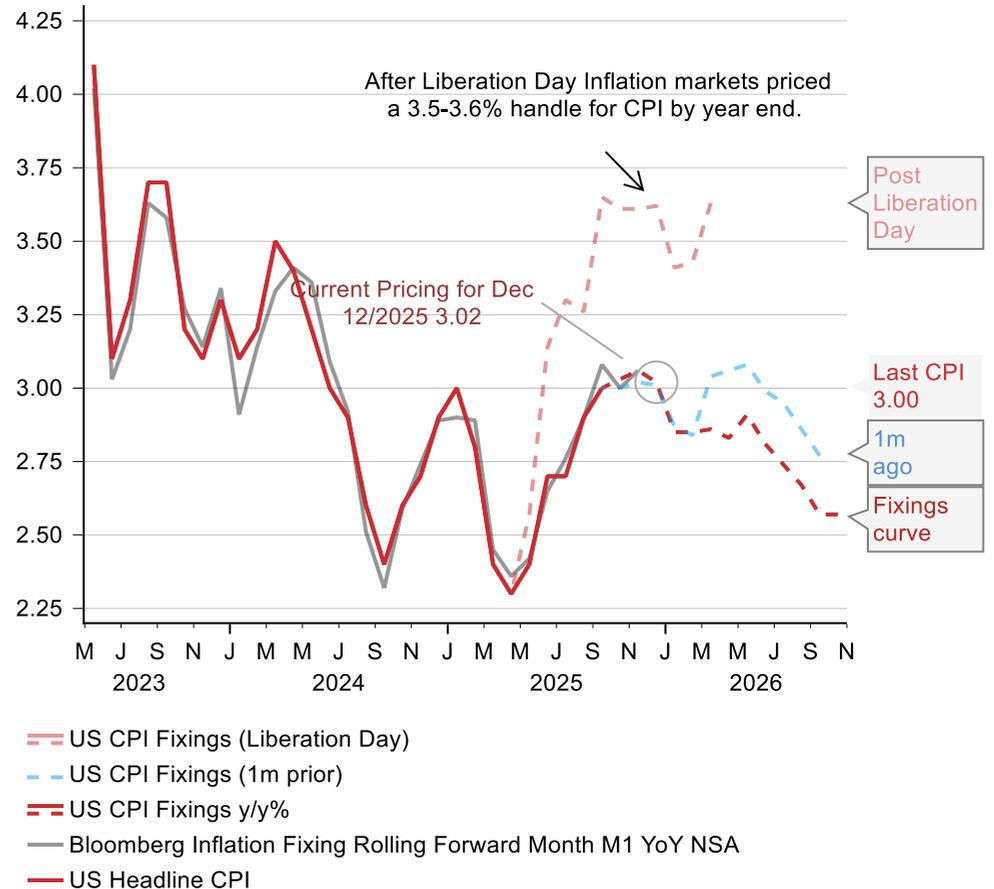
ISM service prices lead US headline CPI?

ISM Service prices lead US Headline CPI by 3m



US CPI fixings y/y%

US CPI fixings y/y%



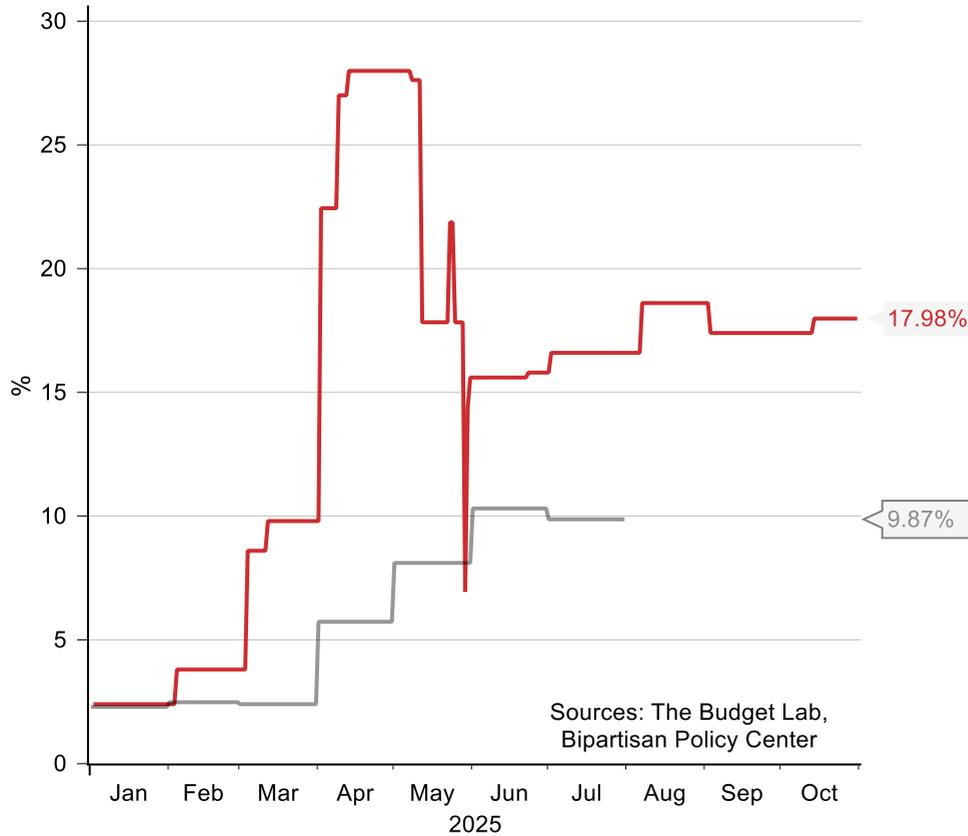


Tariff Rates vs Revenues

- The Gap between Tariff Rates and Revenues differs between regions
- Have importers found ways to reduce the tariff burden on the US consumer?

The Gap Between Tariff Rates and Revenues

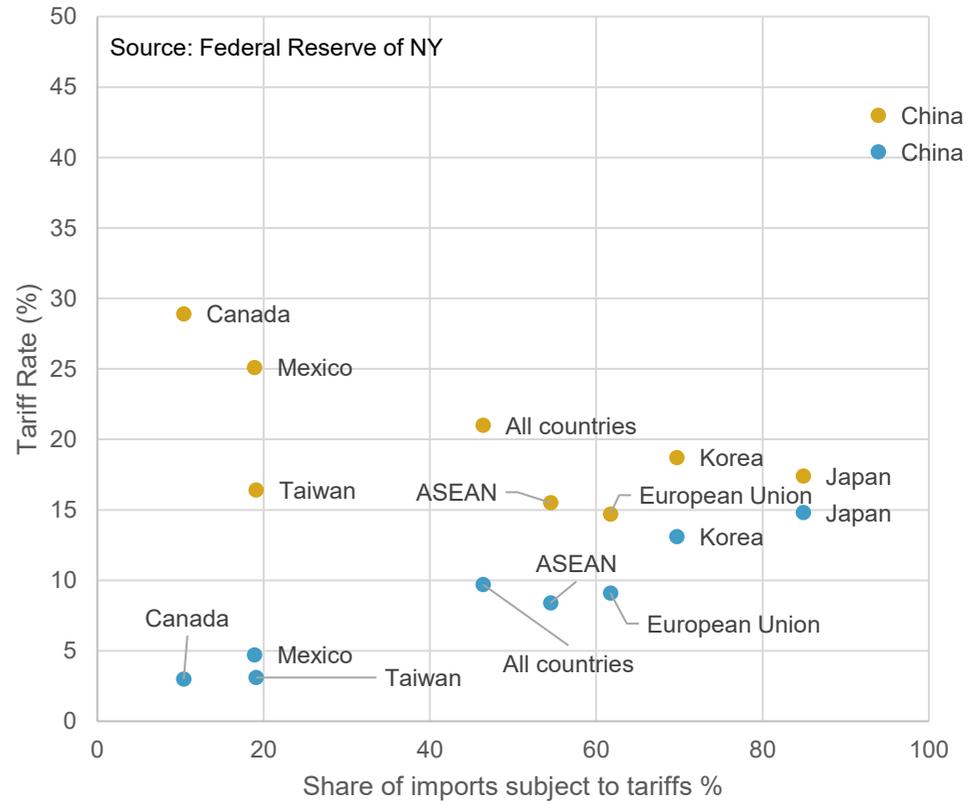
Average Effective Tariff Rate (%) vs Tariff Revenue (% of Imports)



— Average Effective Tariff Rate — Tariff Revenue (% of Total Imports)

Average Tariff Rate vs Average Tariff in dutiable imports

Average Tariff Rate vs Average Tariff in dutiable imports



● Realized Tariff Rates (Calculated as Share of Total Imports)

● Share of Imports Subject to Duties

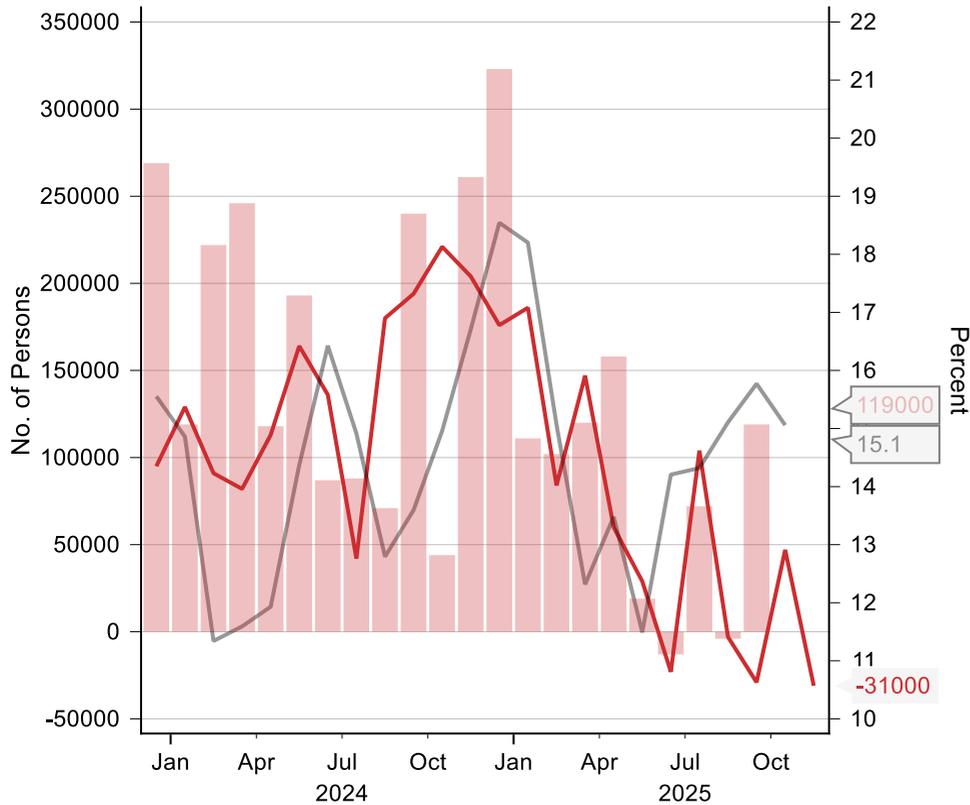


US Labour – noisy of late, but stabilization in NFIB/ADP gives the hawks some room

- 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?

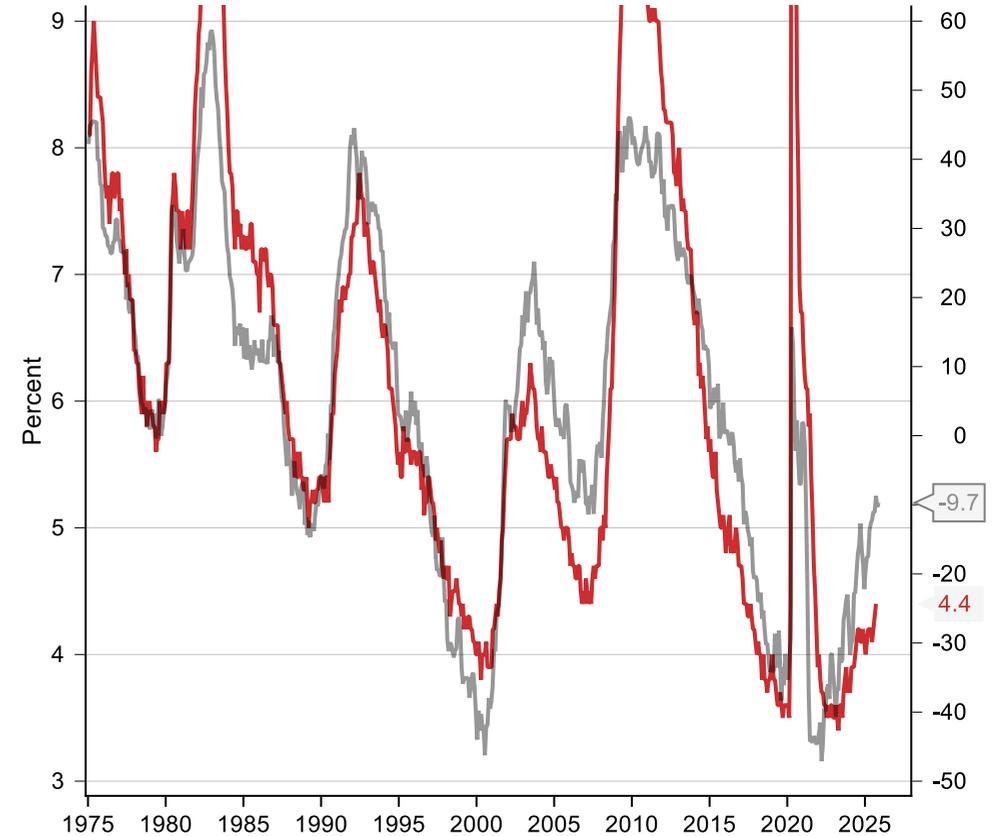
ADP is two months ahead of NFP now; the question is whether its reliable



■ 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

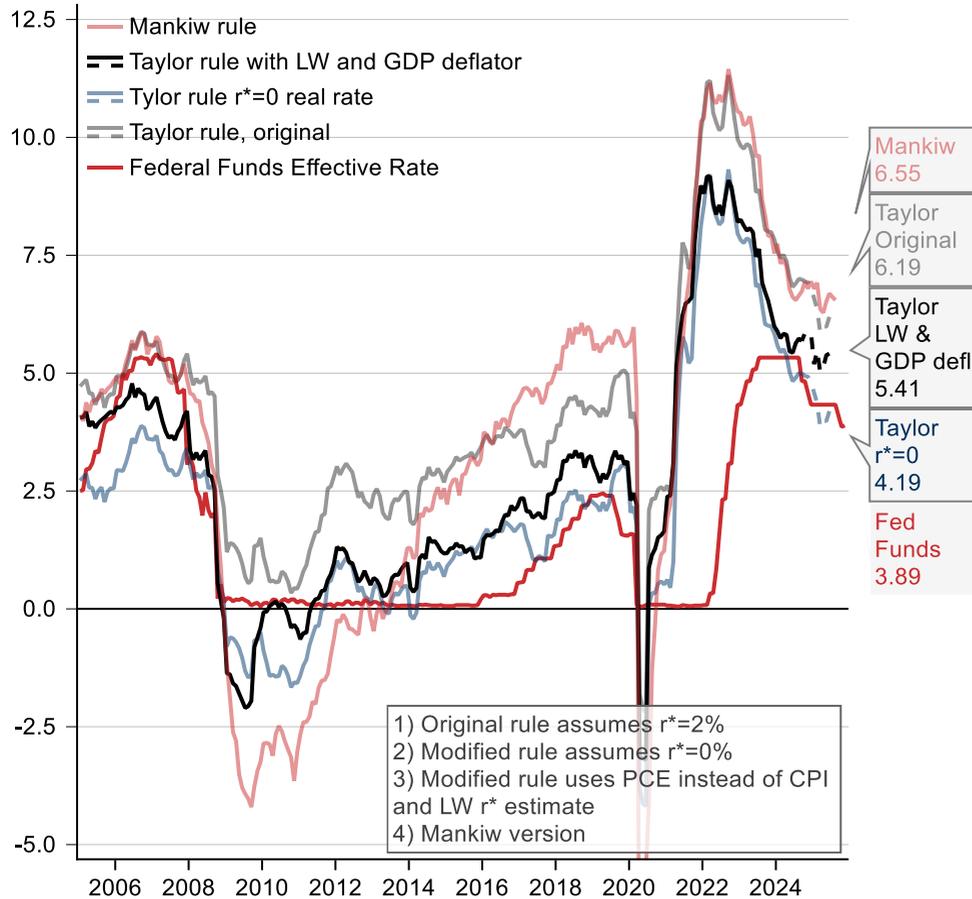


US - Fed Policy, Taylor rules and Fed speak

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

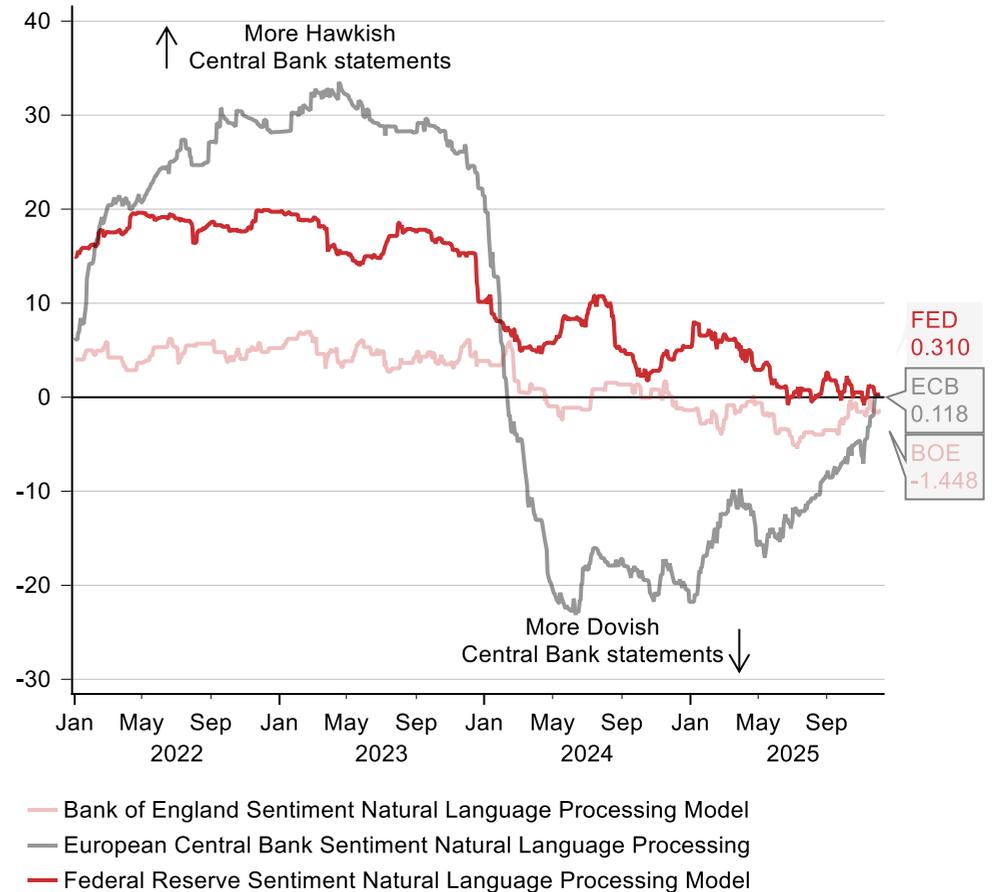
Should the Fed be cutting right now?

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



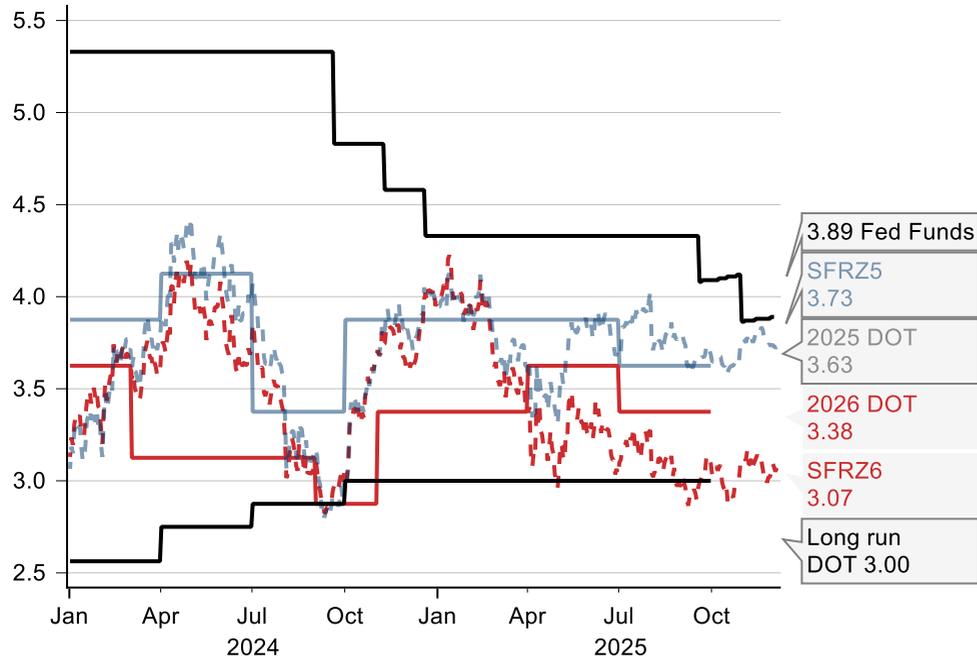


US – Market Pricing and US data surprises

- US pricing is largely anchored by the DOT plot
- Loose FCI is a factor that could boost data surprises

Will the LR Dot continue to anchor market pricing?

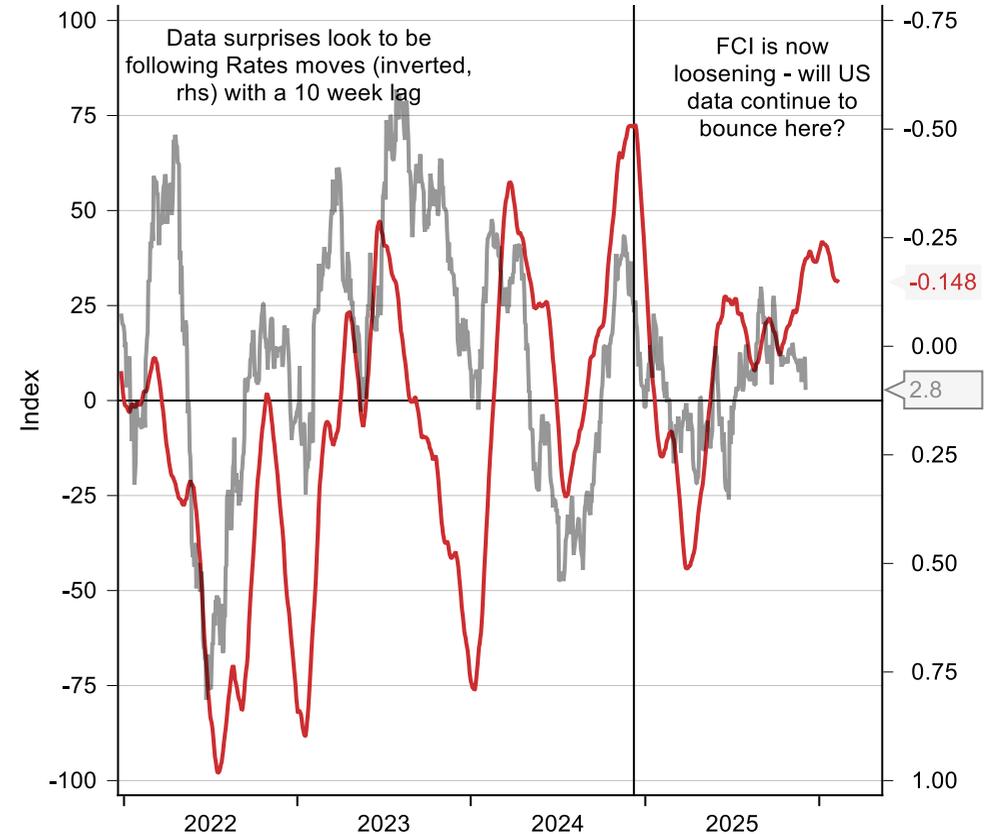
The market is anchored by the DOTs



- 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

US Data FCI Loop – Loose conditions risk a data upside ahead

The US FCI loop - Data surprises follow rates moves with a 10 week lag



- US Data surprise, lhs
- US 10yr vs 6mma (10w lead), rhs

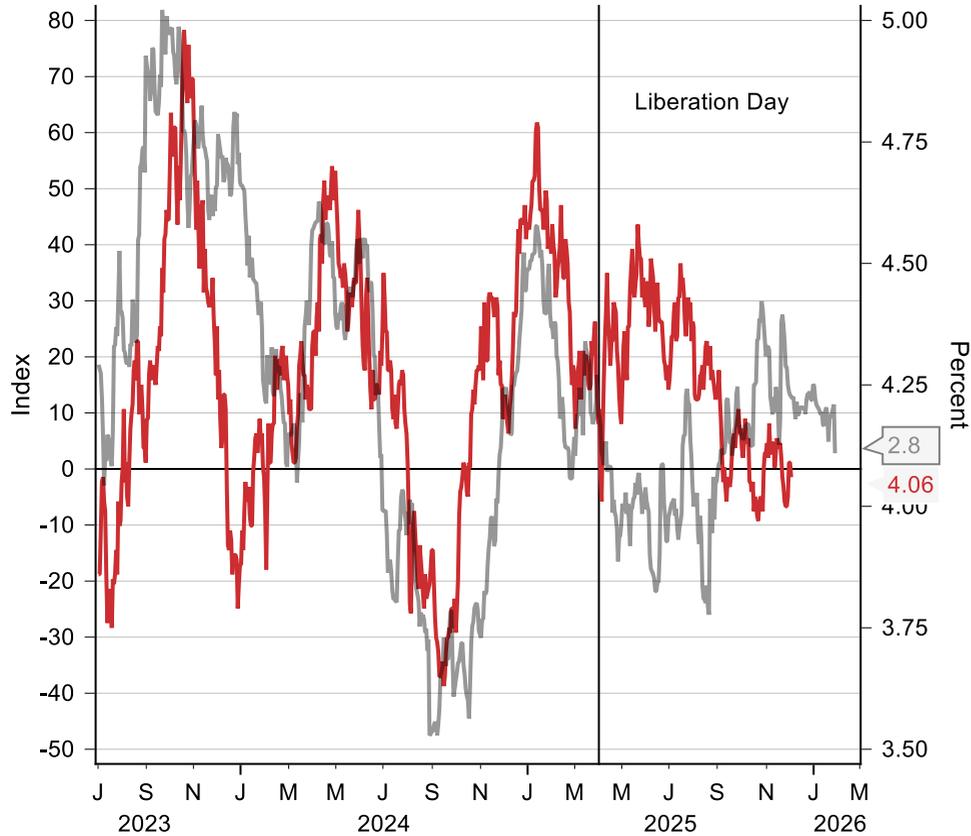


US Rates - Duration

- 10yr vs data surprises
- 10yr vs forwards

US 10y vs US Data surprises

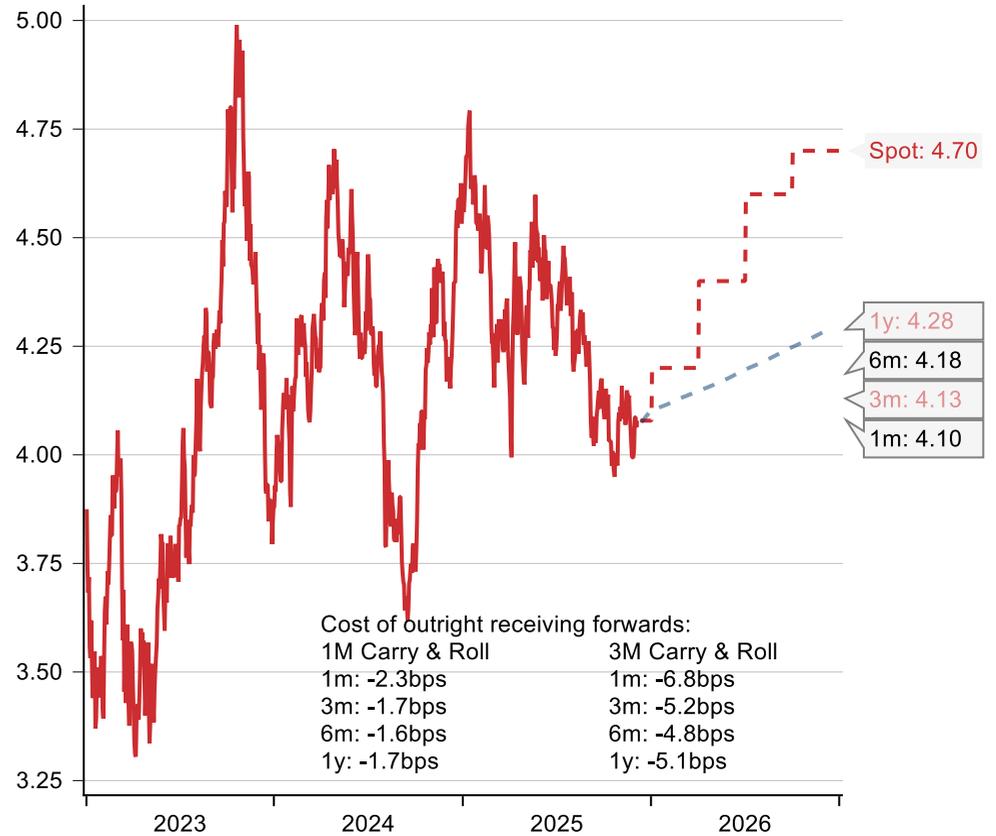
Do data surprises lead US 10yrs? They did, then Liberation Day came



— 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: -2.3bps	1m: -6.8bps
3m: -1.7bps	3m: -5.2bps
6m: -1.6bps	6m: -4.8bps
1y: -1.7bps	1y: -5.1bps

— Forwards — US 10s

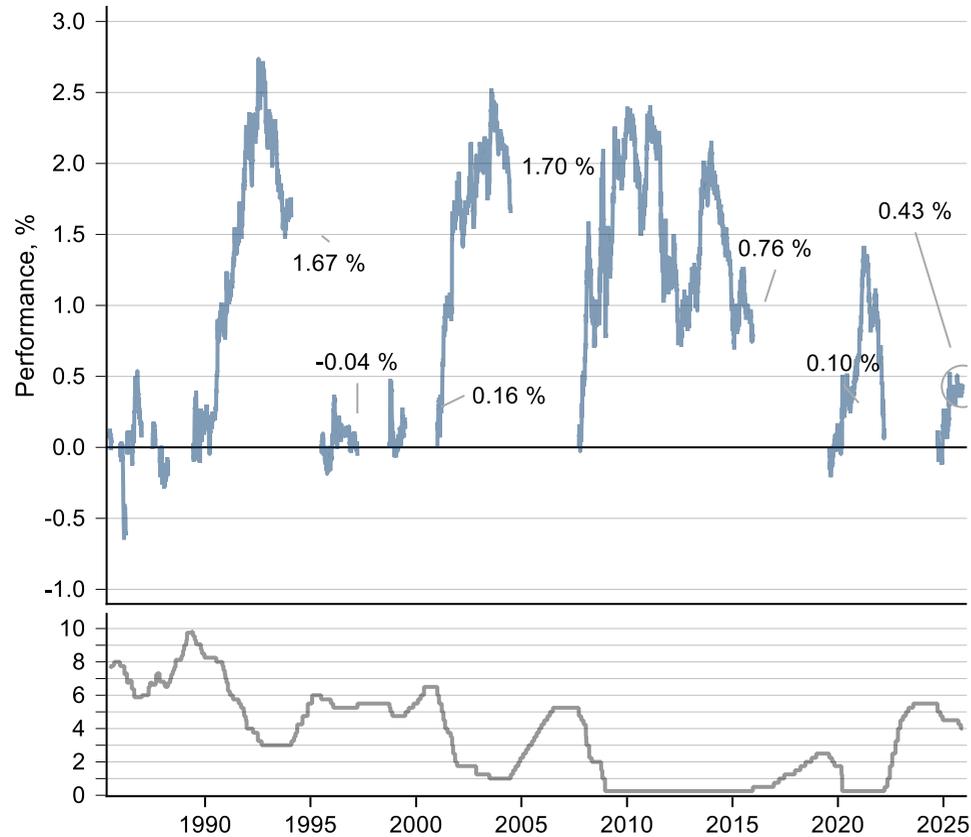


US Rates - Curve

- 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



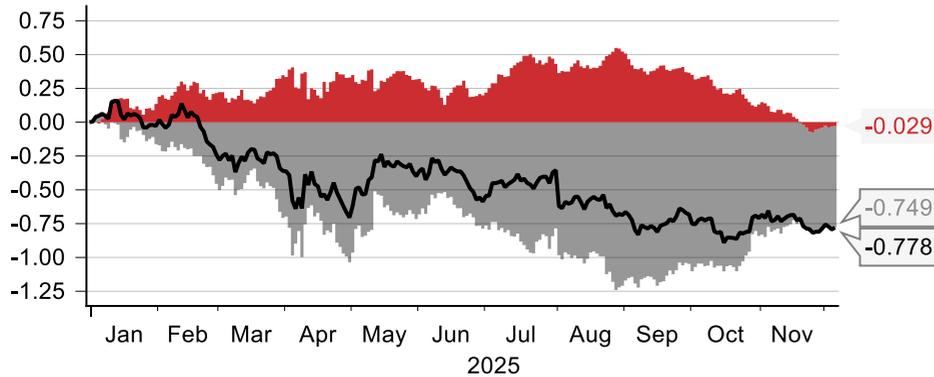
— Forwards — US 2s10s



USD rates moves broken down

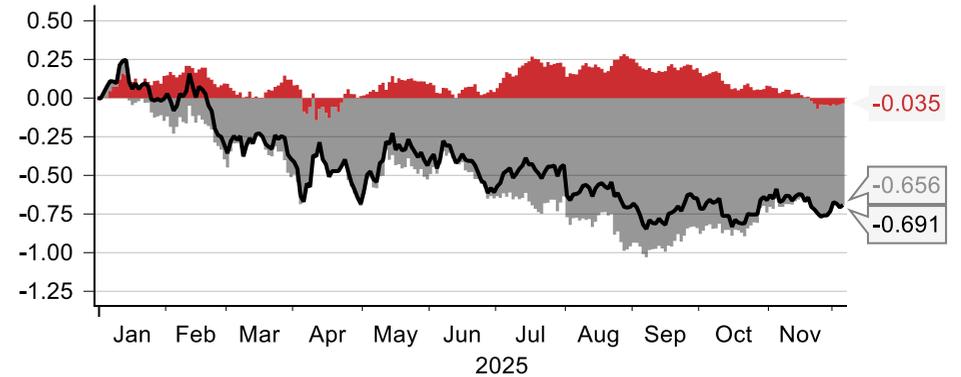
- Real rates have been in the driver's seat: pricing a recession since Liberation Day
- Notable inflation premium priced into the front-end is softening – tariffs are not an issue... yet?

Changes in USD 2yr split into real vs inflation expectations



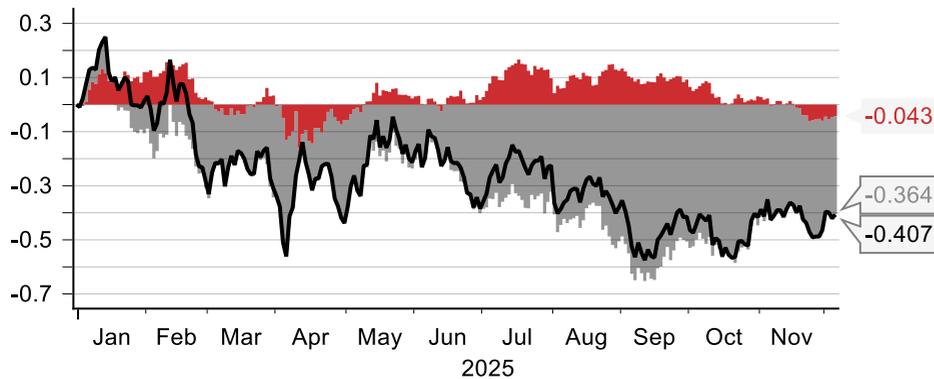
— USD Nominal 2yr moves (SOFR) ■ USD Real yield ■ USD Inflation 2yr

Changes in USD 5yr split into real vs inflation expectations



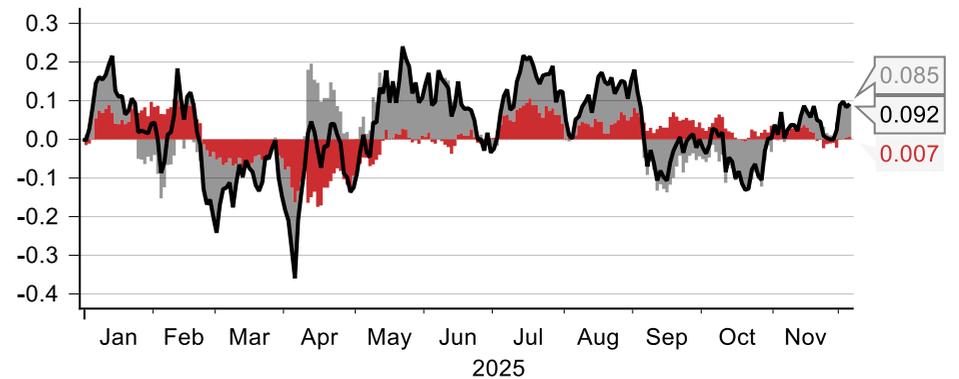
— USD Nominal 5yr moves (SOFR) ■ USD Real yield ■ USD Inflation 5yr

Changes in USD 10yr split into real vs inflation expectations



— USD Nominal 10yr moves (SOFR) ■ USD Real yield ■ USD Inflation 10yr

Changes in USD 30yr split into real vs inflation expectations



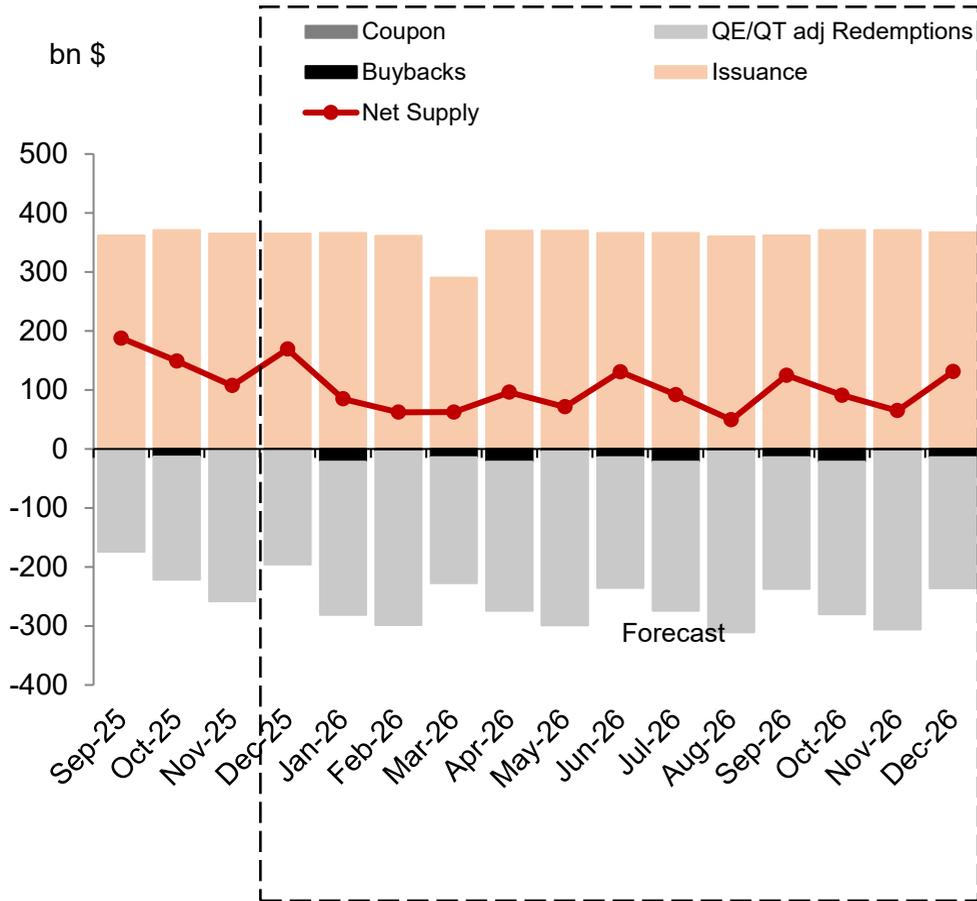
— USD Nominal 30yr moves (SOFR) ■ USD Real yield ■ USD Inflation 30yr



UST 2026 Supply Summary: No major changes besides QT

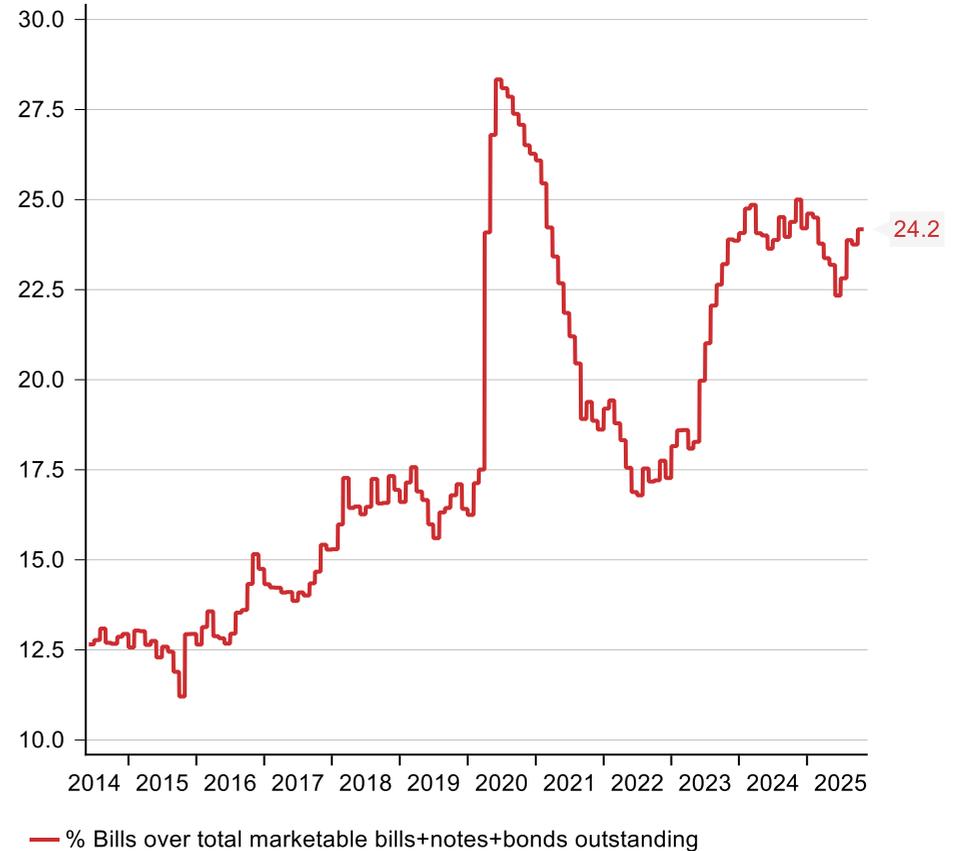
- No change in cpn sizes = \$4.3tn supply for 2026 (broadly unch. vs '25).
- No QT and more buybacks to remain supportive.
- Decrease in WAM ongoing. We expect any increase in issuance to be digested by bills although guidance has shifted.

2026 UST Net Supply – Monthly Breakdown



Larger bill issuance as the direction of travel

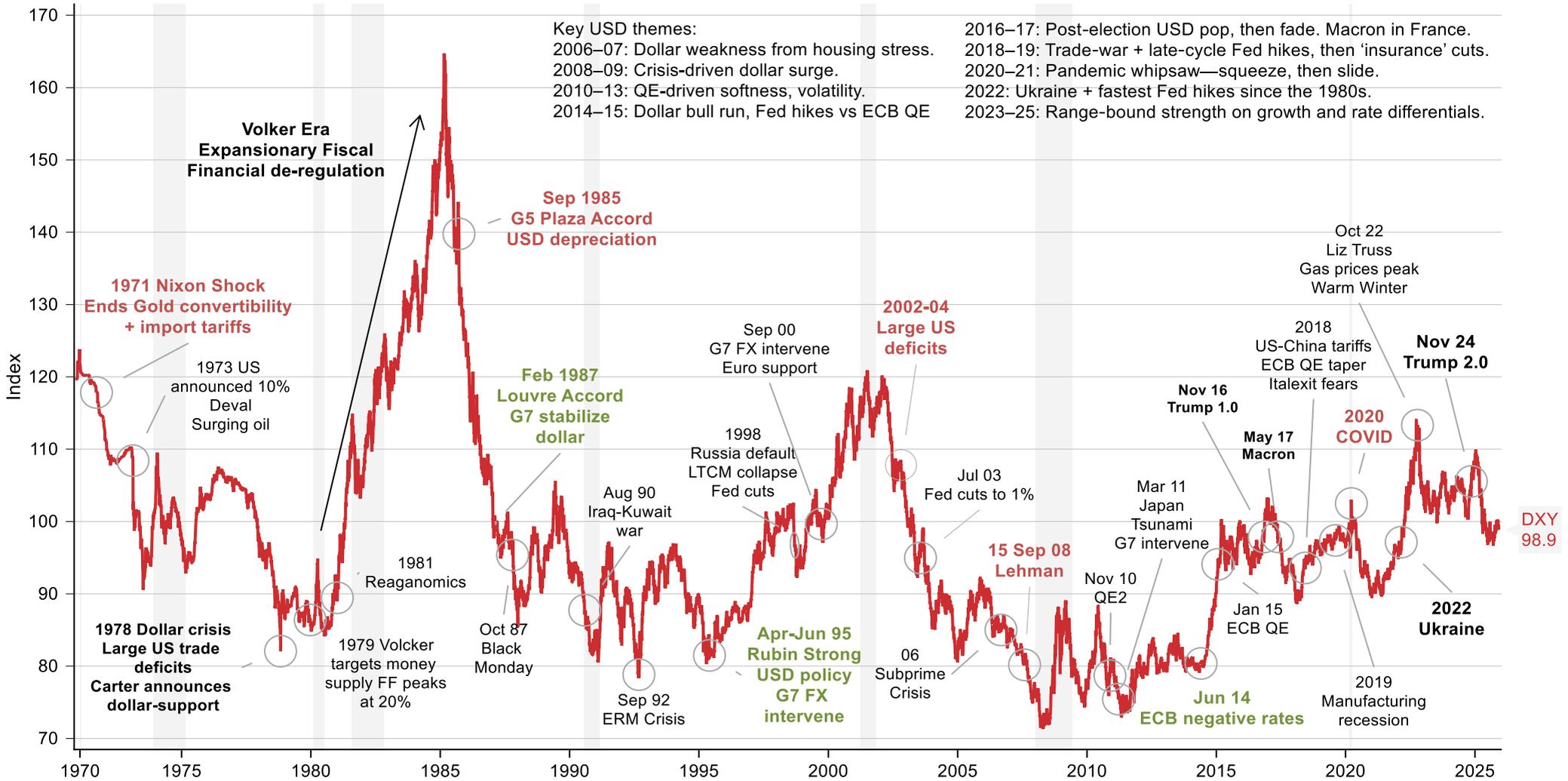
US Bills % over total outstanding (%)





USD – Big moments in Dollar history

DXY and moments in History



— DXY



USD FX short term valuations

1. Other markets have been pointing to a weaker USD in recent weeks
2. DXY to sell off in 2026 with Global growth in ascendancy

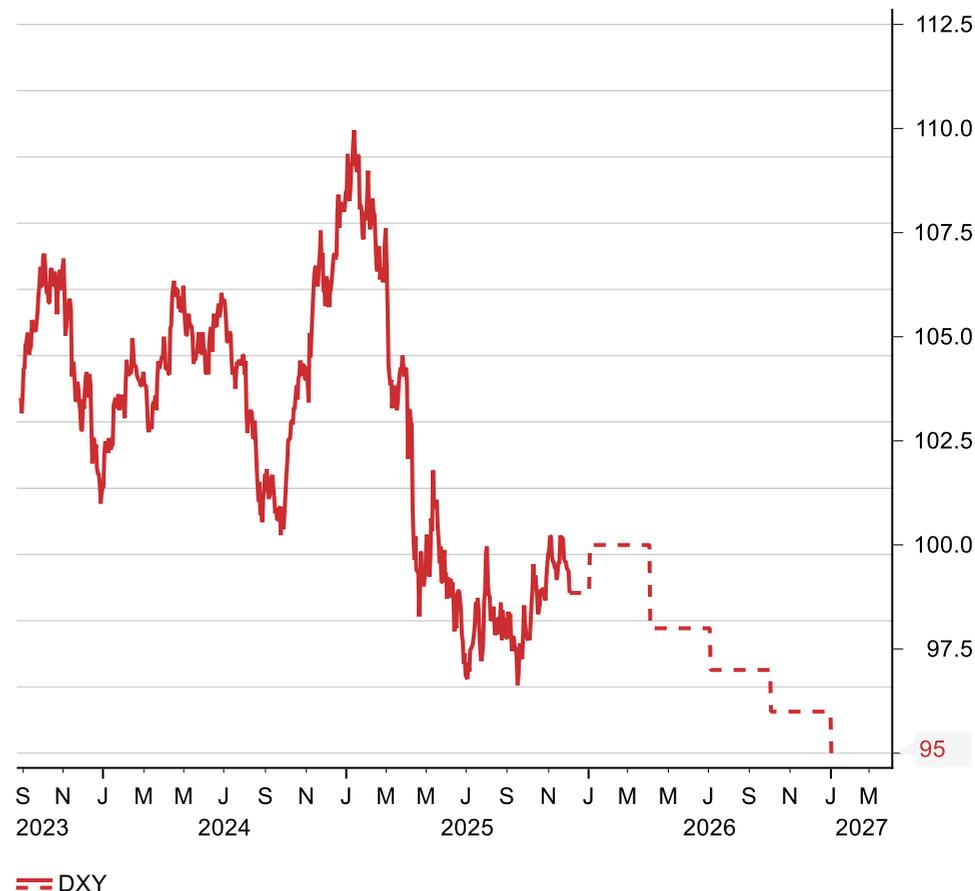
DXY vs multifactor model estimates

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



DXY forecast

Mizuho DXY forecasts



2026 Euro Area Outlook





Economic and Monetary policy outlook for the Euro Area in 2026

EUR: A stubborn ECB and German fiscal hopes but tariff woes and French drama

- **The Data:** Growth has been more solid than feared thanks to Germany's Spring fiscal announcement and perhaps firms front running of US tariffs. But momentum looks to have stalled in surveys with firms running through the backlog of orders over the summer the risks look tilted to the downside in the coming quarter. But from the Spring onwards we expect Germany's fiscal spending combined with loose financial conditions to avoid the worst-case scenarios for Euro Area growth. **Inflation is likely to hover around 2%** in coming months but the risks are ever so slightly tilted to the downside in our view. Labour markets are slowing however with wage growth set to decline in a fashion that may have some doves concerned.
- **The ECB:** The ECB are more than happy to declare mission success in achieving 2% inflation and suggest policy is on hold for some time. It would take a big shock in markets or data surprises to trigger a rate cut. We think it is slightly too early to be talking about hikes but that could be a 2027 story.
- **Rates:** We are looking for **10yr Bunds to test move towards 3.00% again in 2026**. We think curve steepening will continue due to 1) the Dutch pension reform flow, 2) Germany's fiscal expansion and potential growth rebound, and 3) markets demanding a higher term premia as rate hikes become a distant but plausible scenario from March 2026 onward. **EGB spreads to remain compressed**. French OATs may face political headwinds (fair value: 75–90bp vs 10yr Bunds). Italian BTPs look rich but ongoing fiscal consolidation makes it hard to see a big widening from here (75–85bp). Spain stands out with strong growth and fiscal discipline (45–60bp). Germany, meanwhile, faces increased issuance and a worsening fiscal balance. Swap spreads have been stable, but issuance may **lead Bunds to underperform swaps**, except in the long end, where Dutch pension reform could help anchor current spread levels.
- **FX:** December USD weaker seasonality and 2026 German fiscal spending cap sustained USD upside despite some US exceptionalism creeping back in; while the Fed Chair choice adds volatility. Outperformance of EUR in 2025 was rapid but gains slow from here. We see **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 as the long EUR/USD remains rather consensus.
- **Politics:** European politics are slowly approaching a key year, as 2027 will bring Presidential elections in countries like France, Italy, and Spain. **France's** political developments have been on the radar since Macron called for snap legislative elections in June 2024. The fragmented political backdrop and the continuous swaps in PMs have made any sort of fiscal consolidation tricky. French sovereign bonds are pricing a political risk premia as a result and we expect that to remain. **Spain** has been relatively quiet if we take into account that the country hasn't been able to pass a new budget in the last two years due to a lack of political agreement. This has worked in Spain's favour – the rolled-over 2023 budget has brought fiscal consolidation. The mix of parties that form the governing majority make the Spanish government look fragile. However, this may not be such a pressing issue for markets as right parties form the current opposition and a change in government should therefore mean more fiscal discipline. Good for SPGBs either way. **Italy's** Meloni has done an unexpectedly good job at keeping Italy's political premia at bay and we expect her to keep it that way for now. Politics is putting the core-periphery tags to the test.



Event Risks ahead (Euro Area)

Timeline of risk events:

December 2025

- **5 Dec:** Eurozone GDP (3Q)
- **11 Dec:** Vote on first part of France draft budget law
- **16 Dec:** Eurozone Manufacturing PMI's (Dec, Flash Estimate)
- **17 Dec:** Inflation Data (Preliminary) Release
- **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)
- **Dec:** Final vote on the France draft budget law

Rating reviews:

- **5 Dec:** Germany (S&P) rating review

2026

- **26-27 Jan:** India-EU Summit
- **May:** UK-EU Trade & Cooperation Agreement Review
- **Mid 2026:** Eurogroup Fiscal Stance Review
- **2026: ASEAN-EU Trade Deals**

2026 Rating reviews – Timing expectations (based off the 2025 rating reviews):

- **Germany:** Fitch and S&P around Jan/Feb and Jun/Jul. Moody's in May/June and Nov/Dec.
- **France:** Fitch and S&P around Feb/Mar and Sep/Oct. Moody's in Apr/June and Oct.
- **Italy:** Fitch and S&P around Apr and Sep/Oct. Moody's in May and Nov.
- **Spain:** Fitch and S&P around Mar/Apr and Sep. Moody's in Mar and Sep.



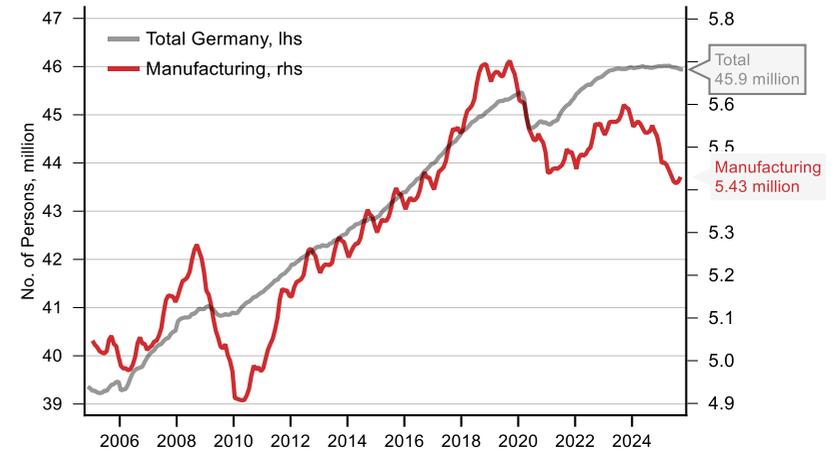
EUR – Four points on growth, surveys are optimistic but hard data less so

1) Germany's **fiscal stimulus has yet to show up in the data**, with industrial production still in decline and 2) **manufacturing employment down**. 3) But rising PMIs support the ECB's growth outlook—explaining why so little rate cuts are priced. 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?*

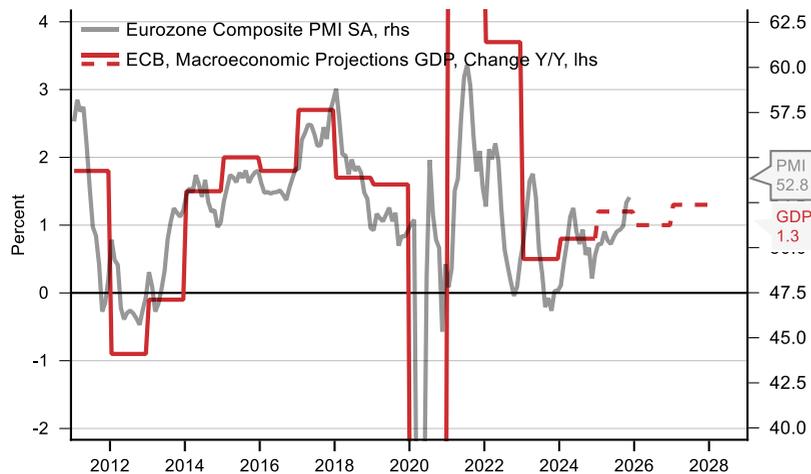
Higher energy costs strike a blow to German industry



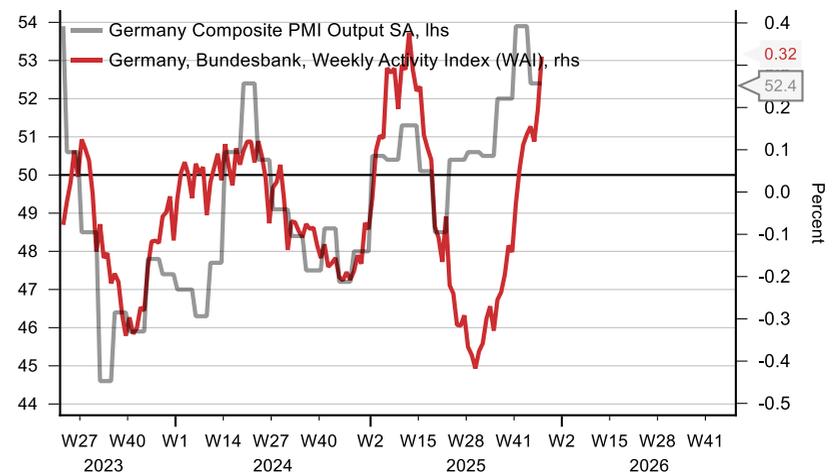
Germany, Employment



ECB GDP forecasts vs PMI



German Bundesbank Weekly Activity Indicator vs PMI



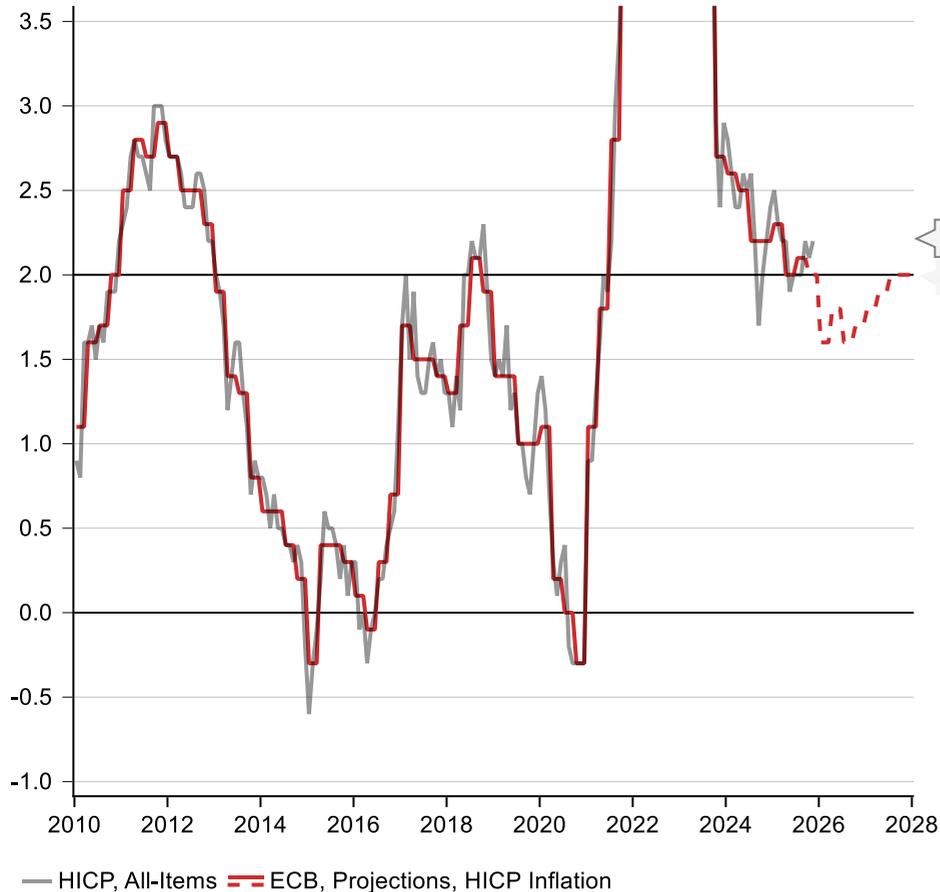


EUR Inflation – goods inflation rebounding the risk, but on track to grind lower

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 roughly in line.

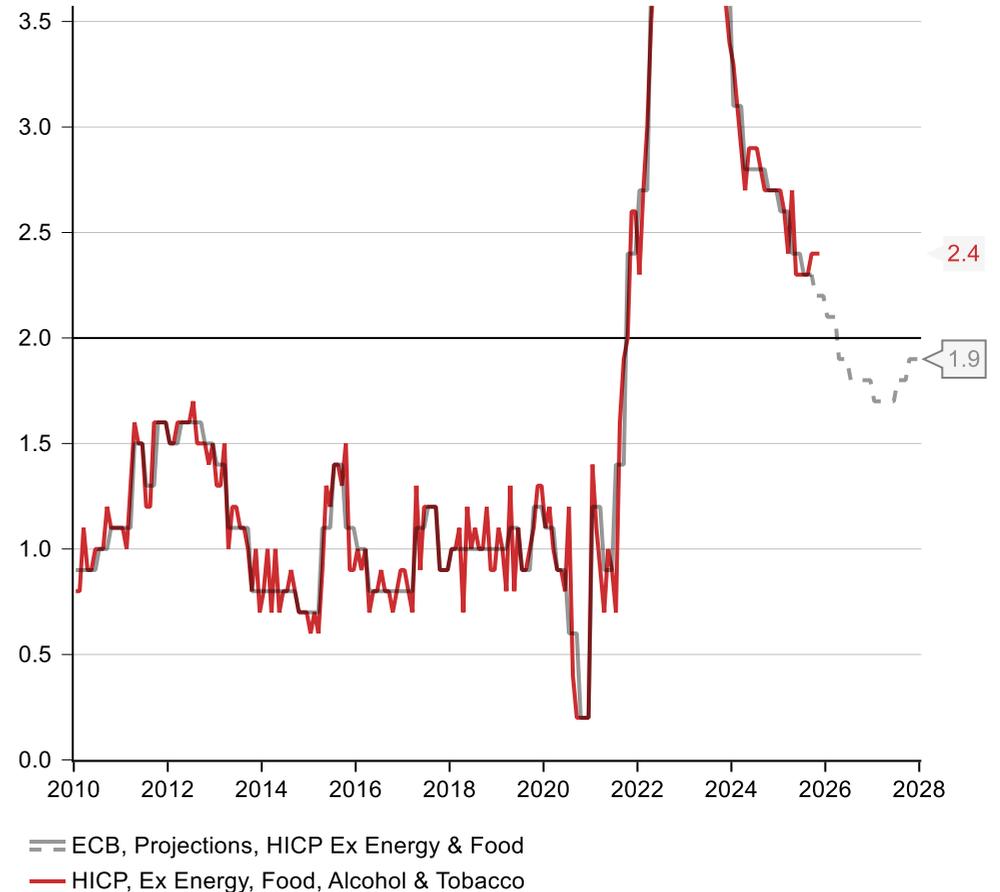
ECB headline CPI forecasts

ECB Headline CPI forecasts



ECB Core CPI forecasts

ECB Core CPI forecasts



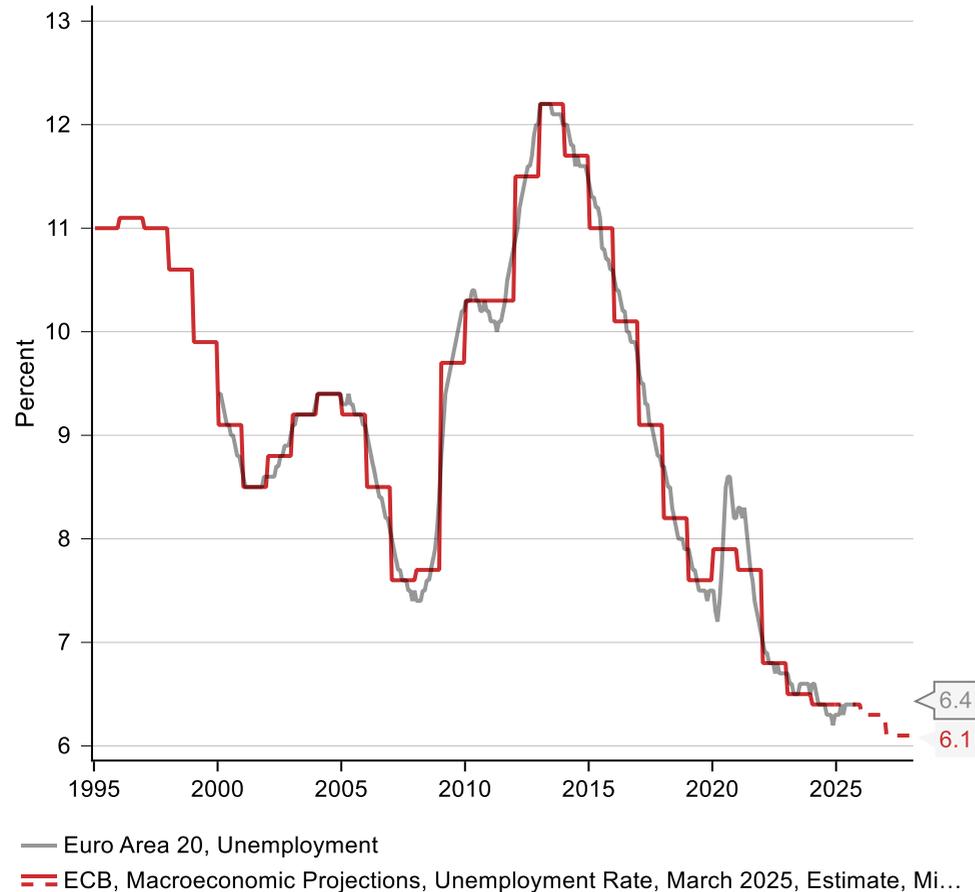


EUR Labour markets – healthy but wages are slowing down quickly

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

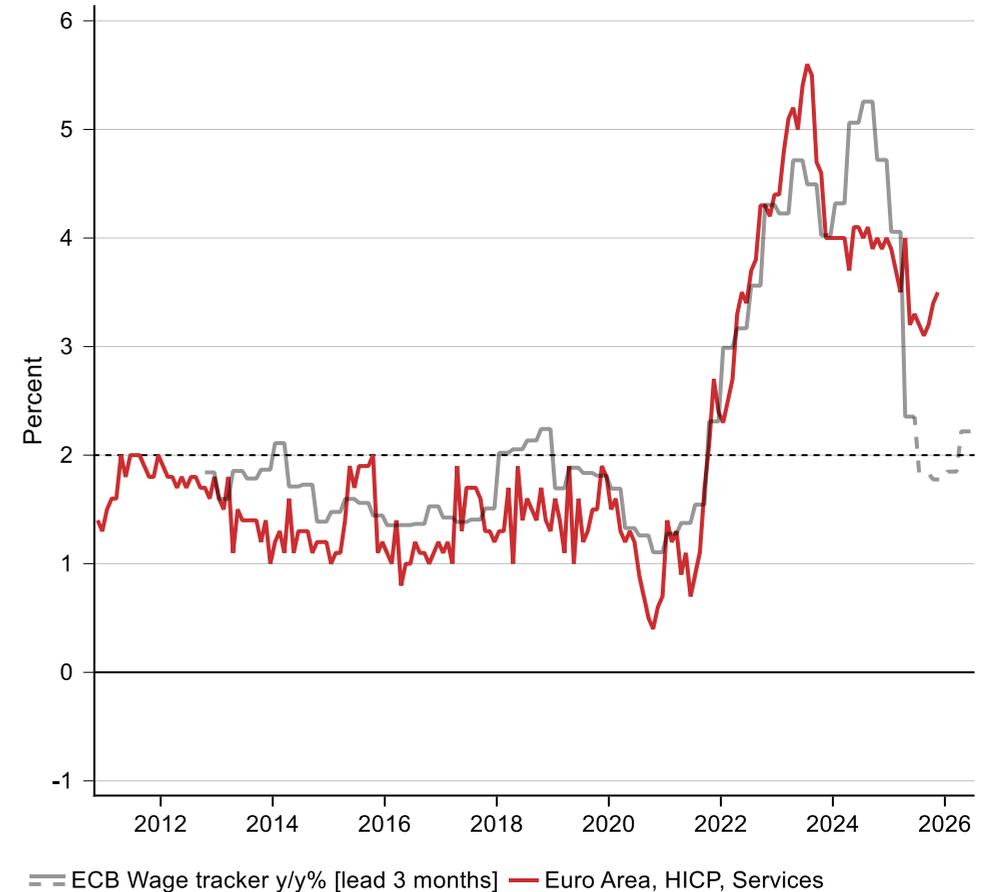
ECB unemployment forecasts

ECB unemployment forecasts



Slowing Wages to cool off Services inflation?

ECB wage tracking leads Services CPI



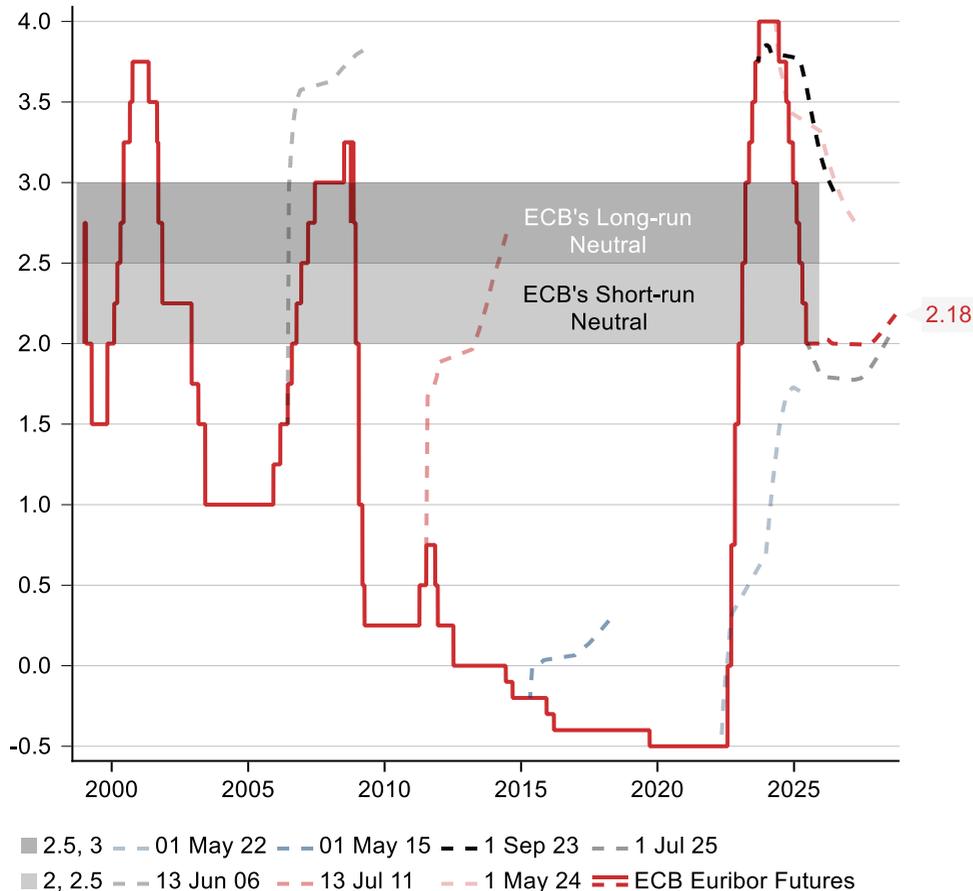


EUR STIRT – Terminal rate pricing

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

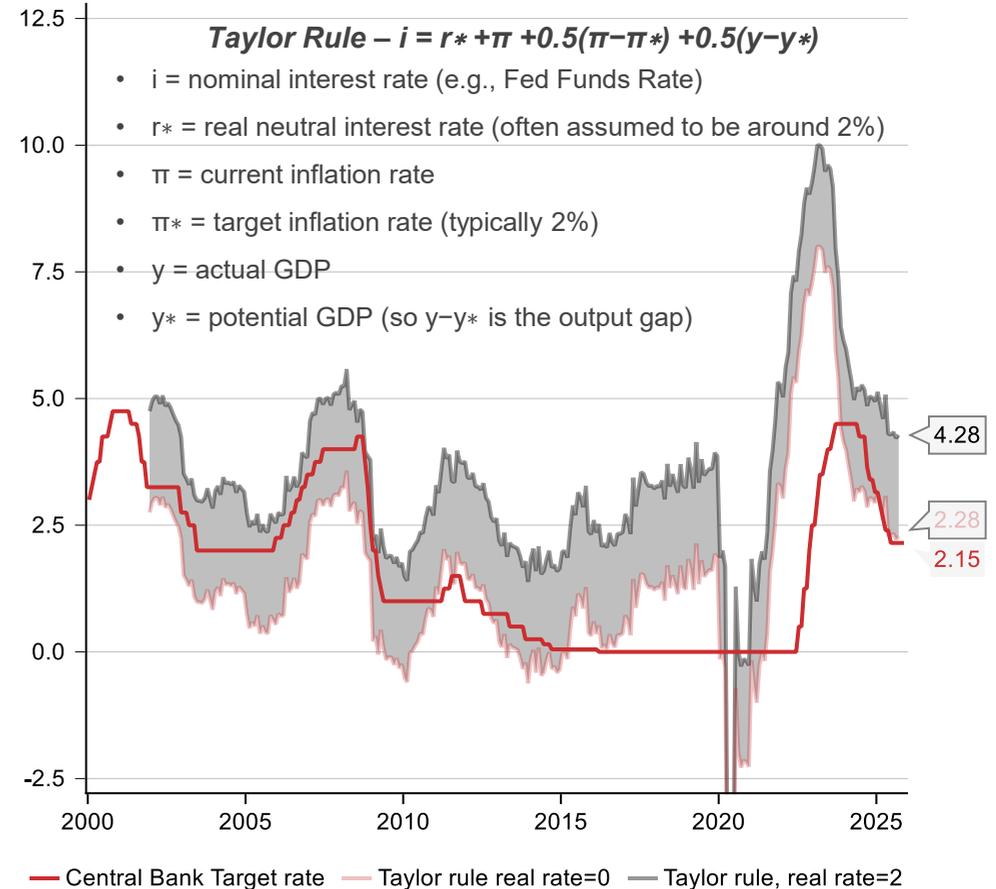
ESTR futures pricing by Dec 2025

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

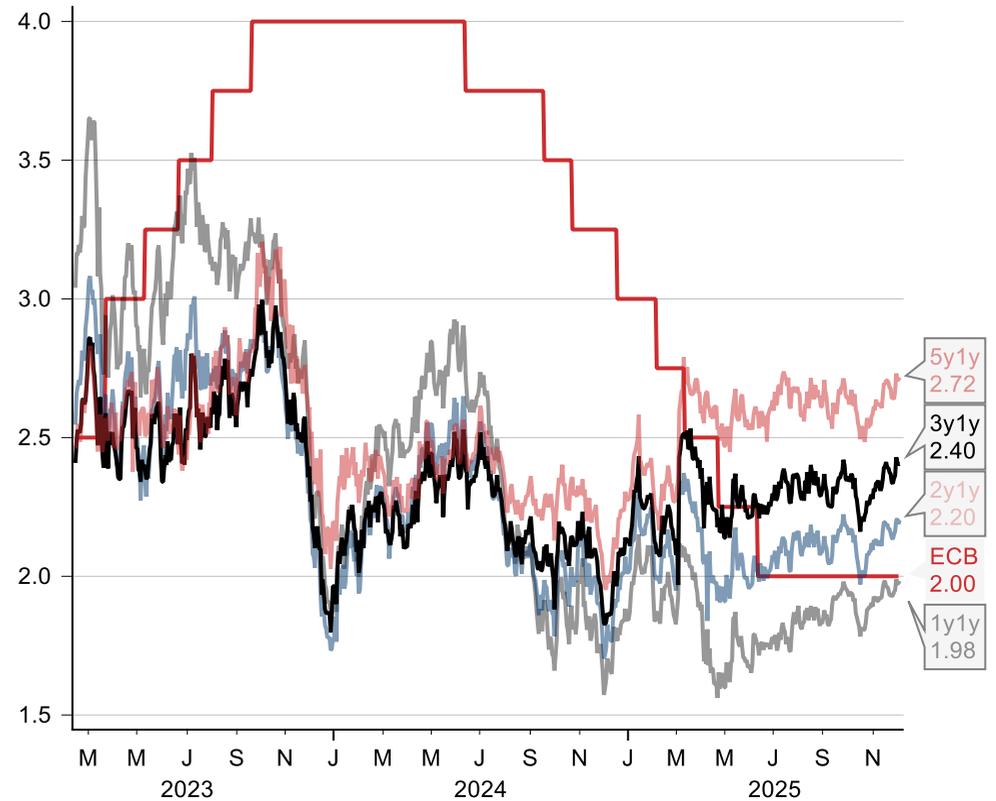
ESTR futures pricing by Dec 2025



■ 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
 — ESTR 1y1y

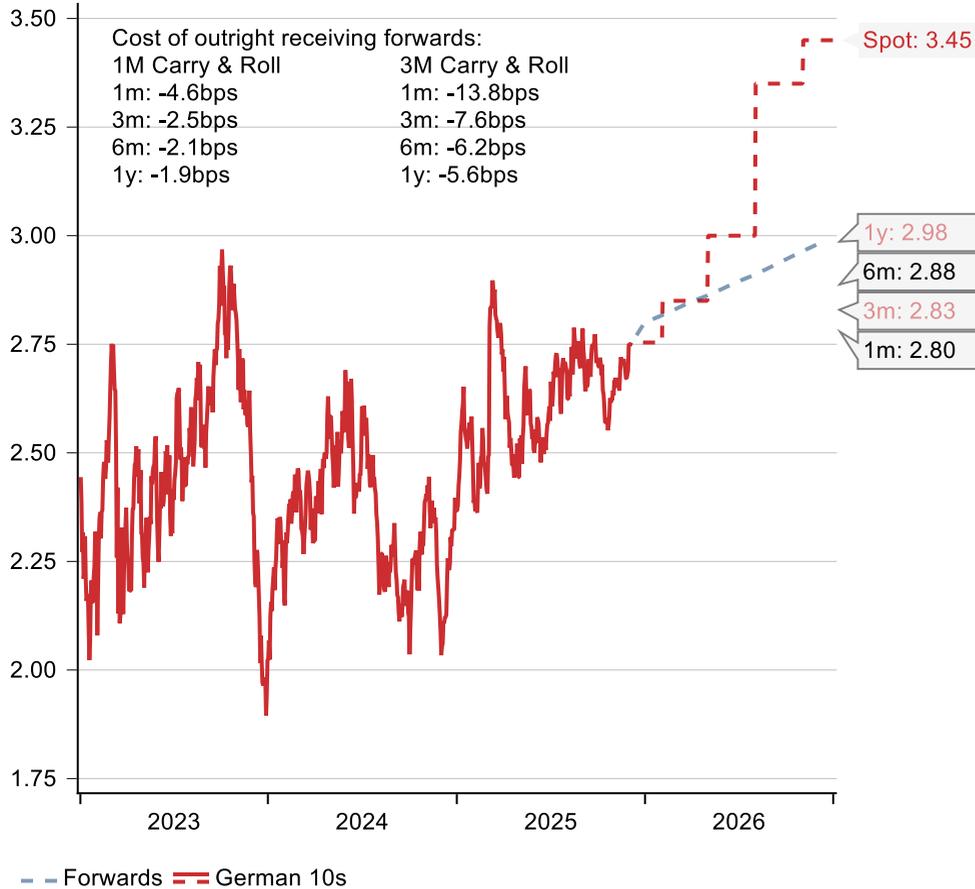


EUR Rates - Duration

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

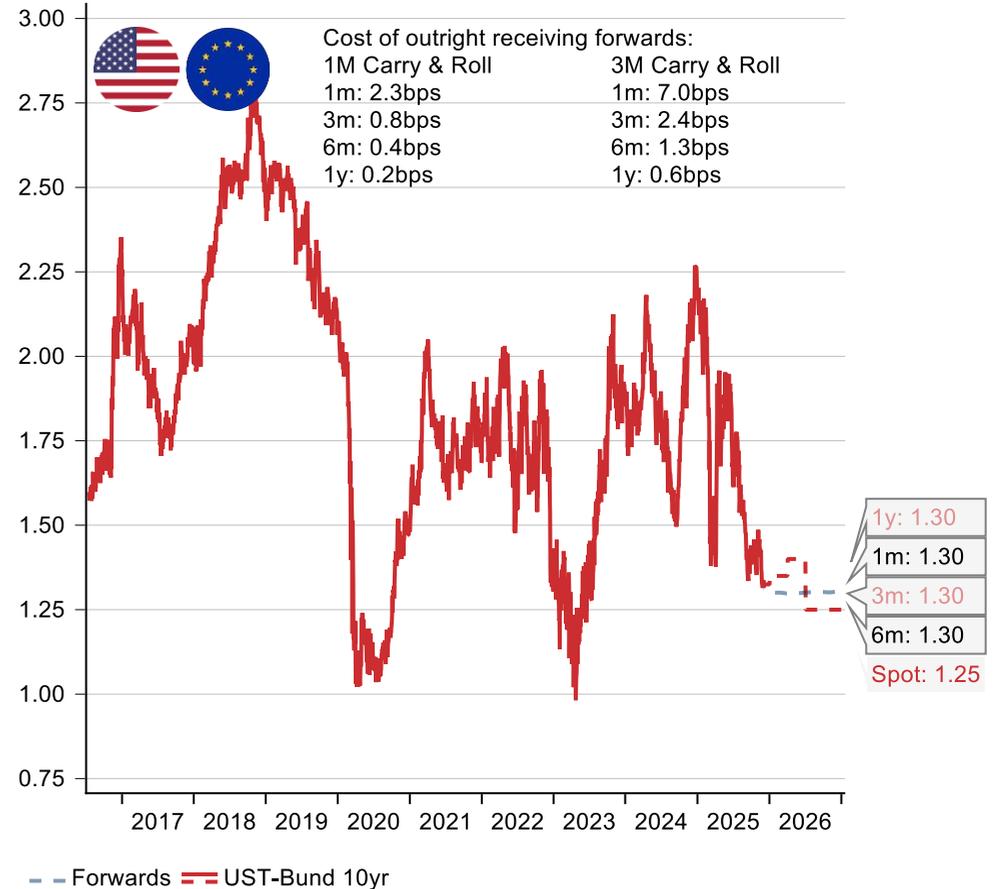
10yr Bunds

Germany 10s vs forwards



UST-Bund 10yr spread

UST-Bund 10yr spread vs forwards and forecasts



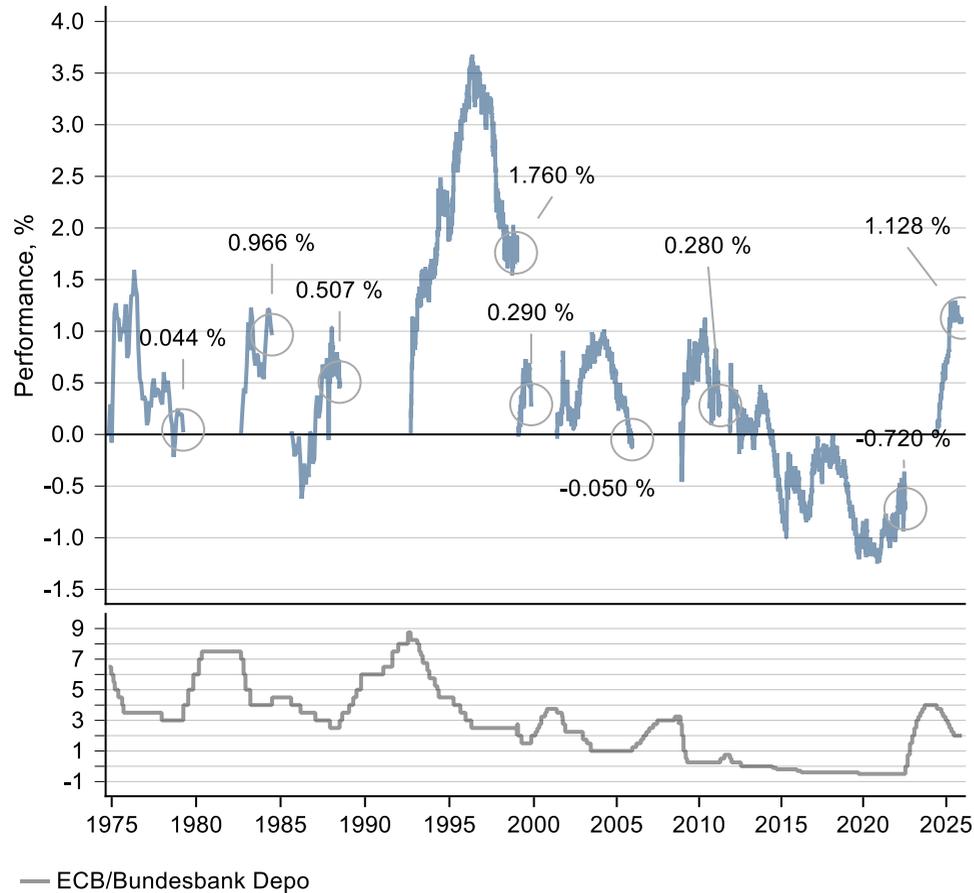


EUR Rates - Curve

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

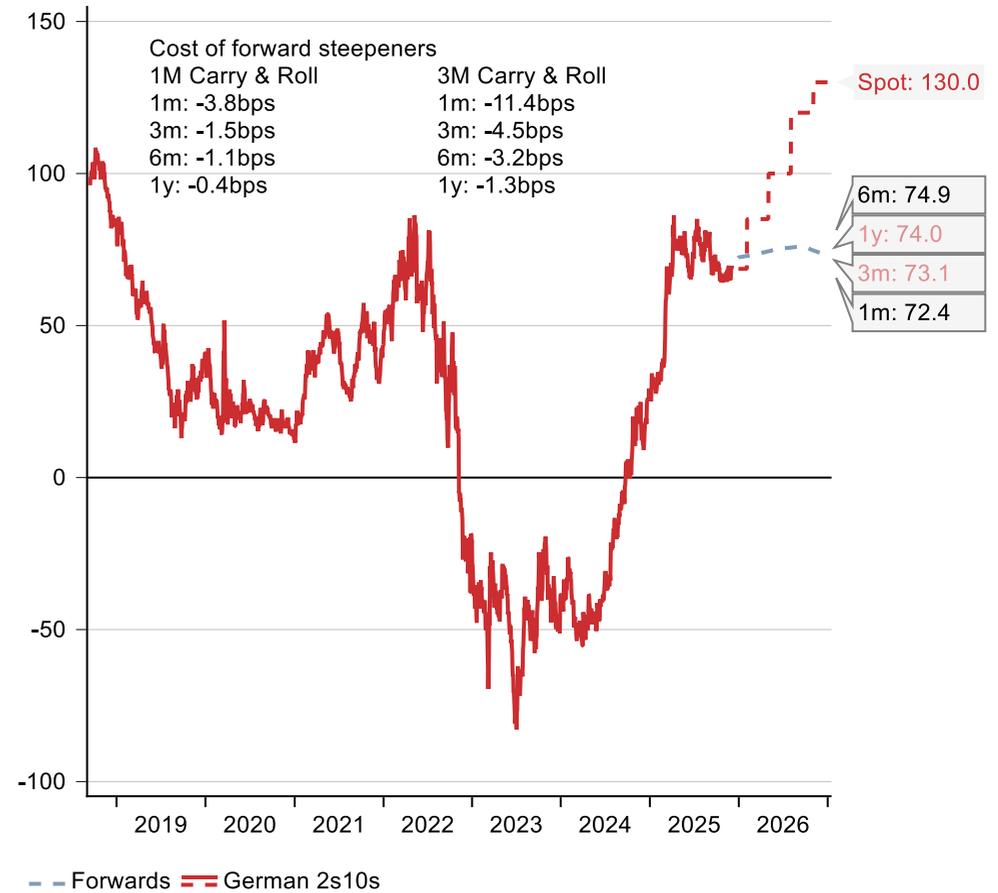
10yr Bunds

German 2s10s in cutting cycles



German 2s10s vs forwards

Bund 2s10s vs forwards



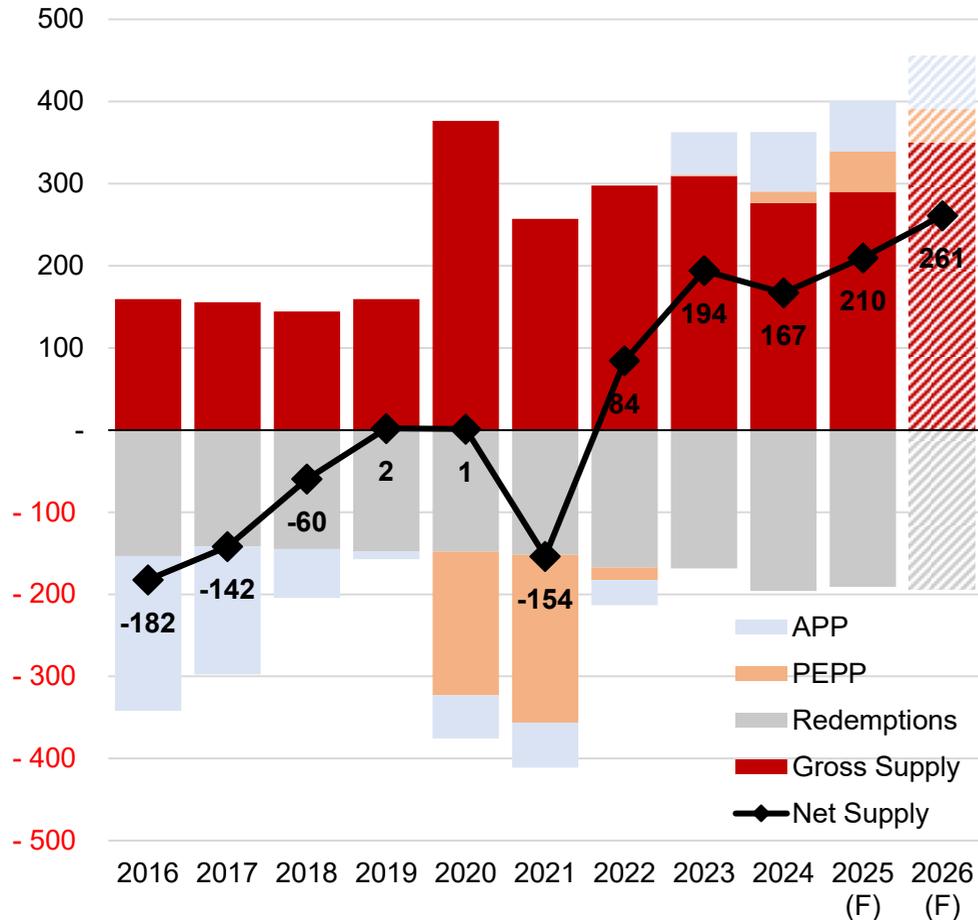


Key Theme: German issuance ramp up

- Total borrowing needs are expected to increase from ~€57bn in 2024 to ~€143bn in 2025 to ~€180bn 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).

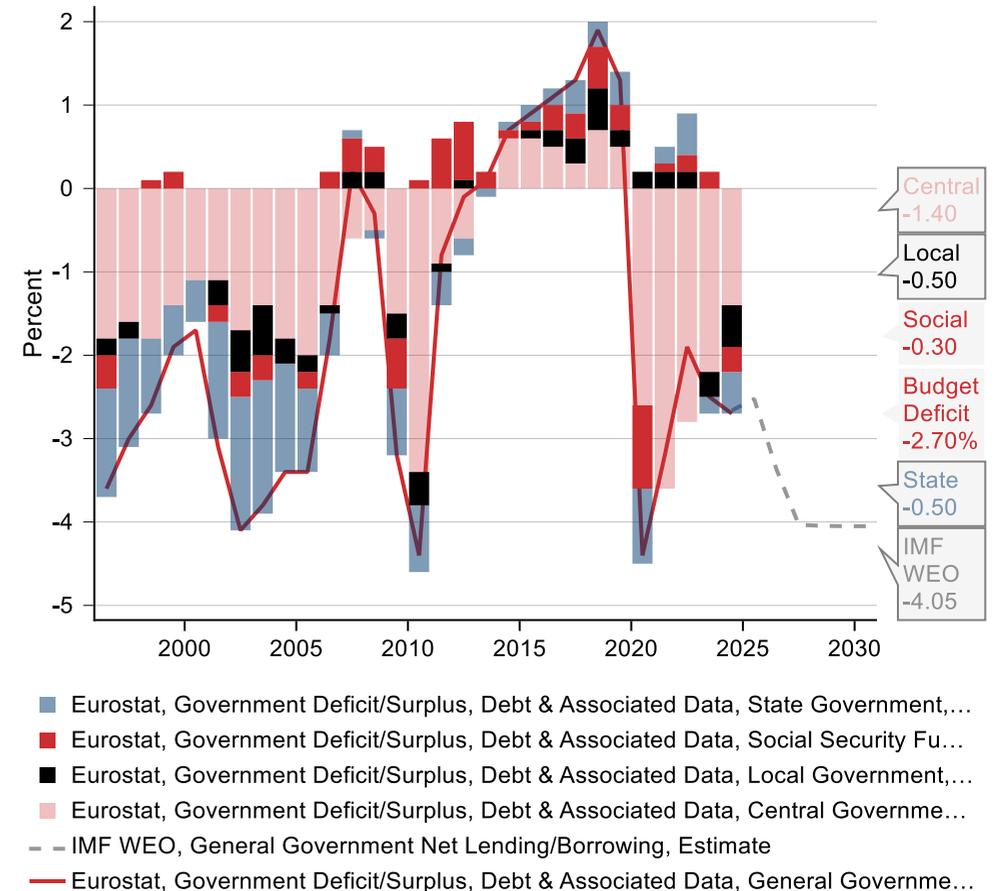
Net supply of Bunds on the rise

Germany Bund Net Supply Overview (EUR bn)



Rising public deficit in Germany

Germany, Public Deficit, % GDP, Eurostat





Key Theme: 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

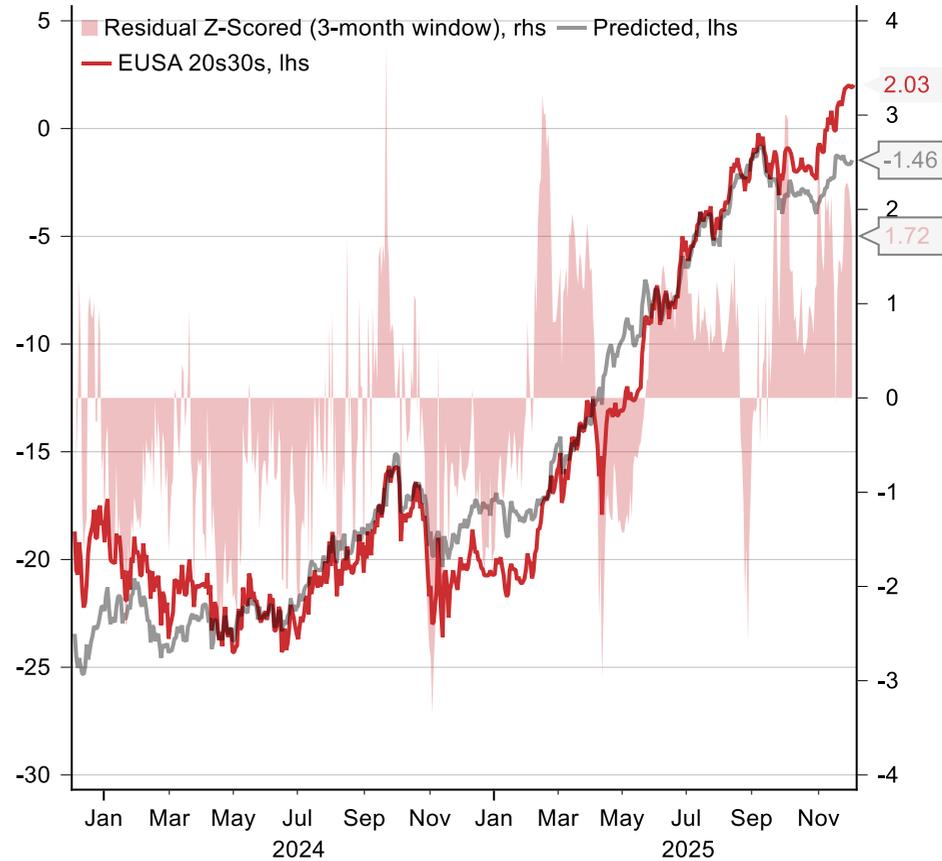
Pension Fund	Transition Date	Pension liabilities (EUR bn)	Relative Size (% of Total Liabilities)	Investment assets (EUR bn)	Interest rate hedges (%)	Latest Policy funding ratio (%)
ABN	01 Jan 27	20	1.5%	26	94	126
ABP	01 Jan 27	450	33.5%	519	58	114
Vervoer	01 Jan 27	29	2.2%	34	56	113
Bpf Bouw	01 Jan 26	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	
			+1bp DC DV01	-1bp DC DV01	+1bp DB vs DC	-1bp 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



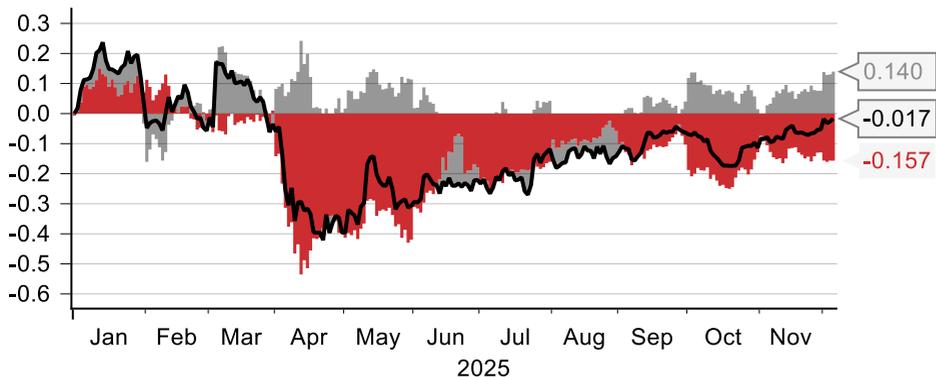
We regressed the EUSA20s30s on the first component of a PCA using SOFR, SONIA, TONAR, OAT and BTP curves. We interpret the residual as the part that is not explained by a global steepening move.



EUR rates moves broken down

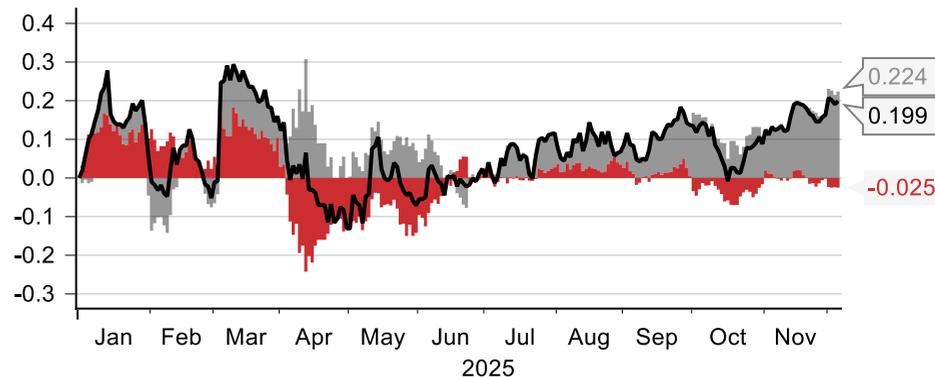
- The post Liberation Day bid in the front-end has been fading and real rates are pushing yields higher. The ECB is in a “wait-and-see” stance, which keeps inflation under control.
- The rise in long-term real yields is based on two key structural themes: the German bazooka story and Dutch pension reform.

Changes in EUR 2yr split into real vs inflation expectations



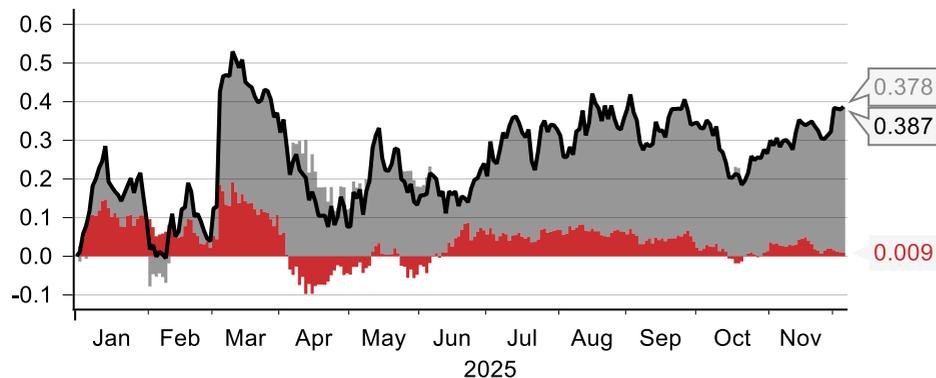
— EUR Nominal 2yr moves ■ EUR Real yield ■ EUR Inflation 2yr

Changes in EUR 5yr split into real vs inflation expectations



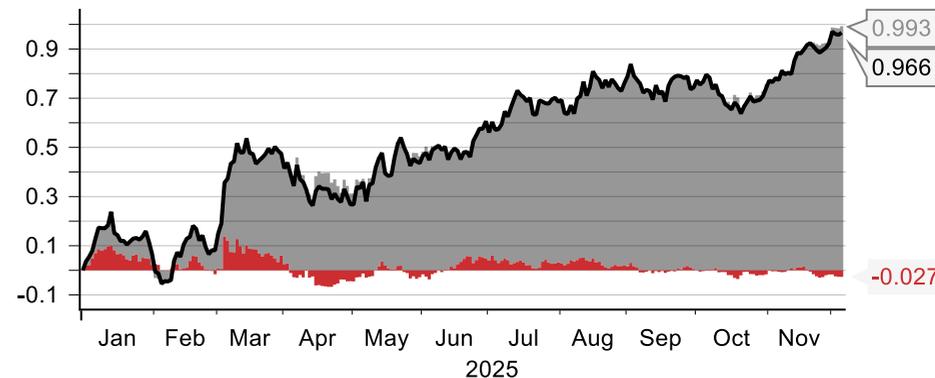
— EUR Nominal 5yr moves (Euribor) ■ EUR Real yield ■ EUR Inflation 5yr

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

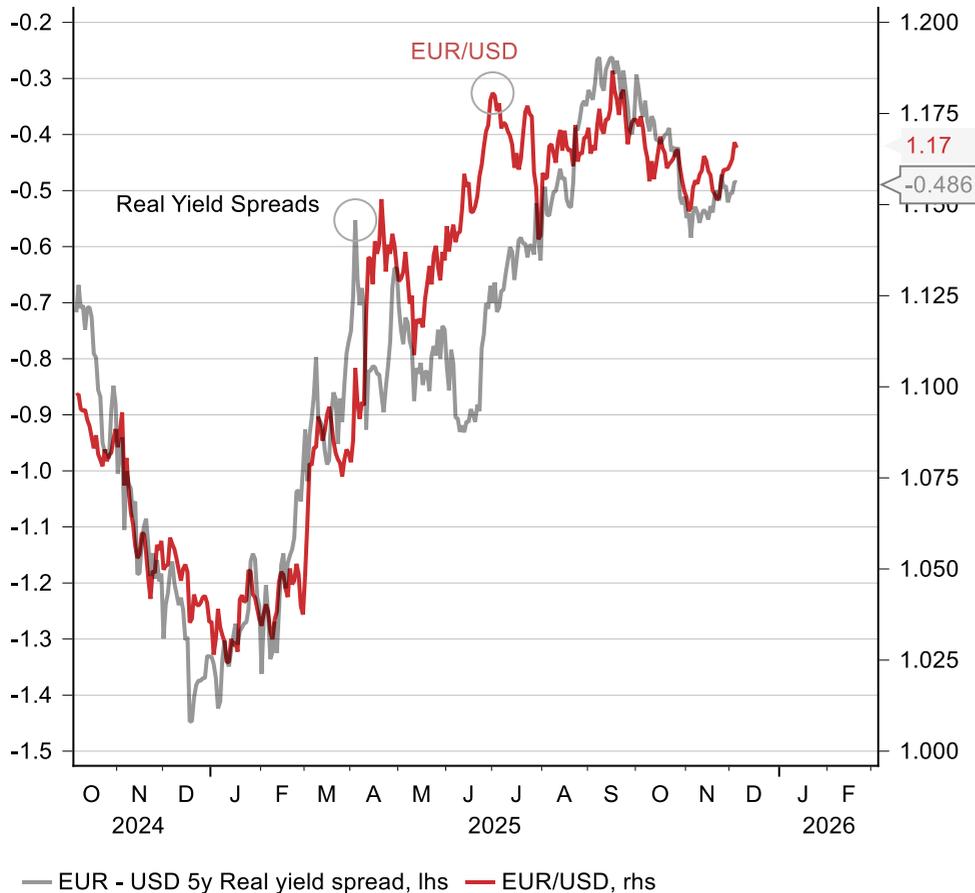


EUR/USD – Rates, equities and history point to higher

1. The USD vs Rates correlation can be fickle but real yields have been the anchor point of late.
2. After a pullback, EUR looks set to continue it's 2017 playbook to 1.20-1.25?

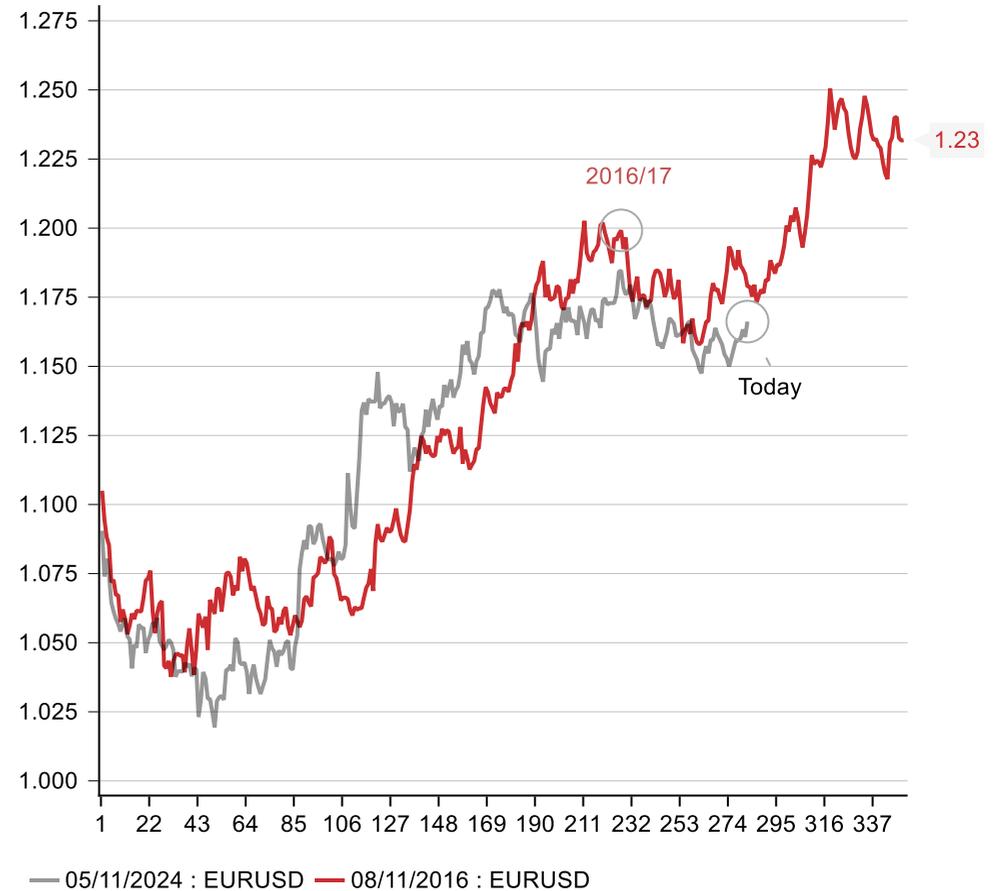
Real yields driving EUR/USD's medium-term valuation

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



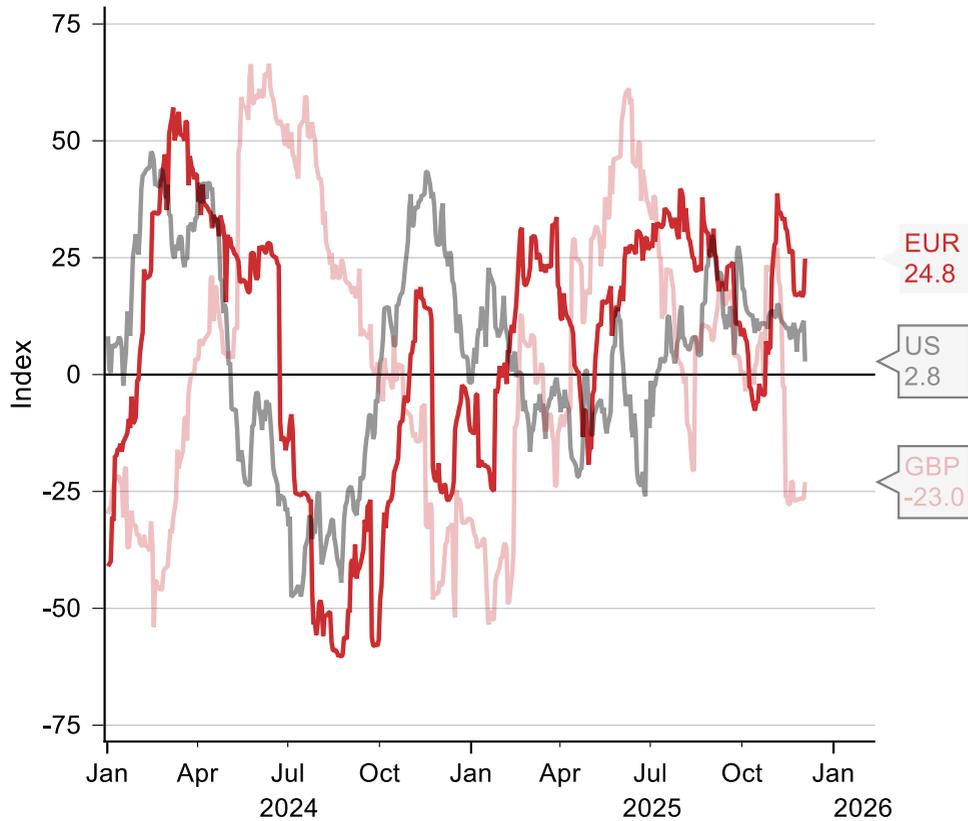


But the EUR narrative faces lower data surprises and already high FX hedges?

1. The rise in Euro data surprises will be short lived.
2. Is the FX hedging narrative over for USD weakness? Danish real money didn't add to hedges.

Data surprises

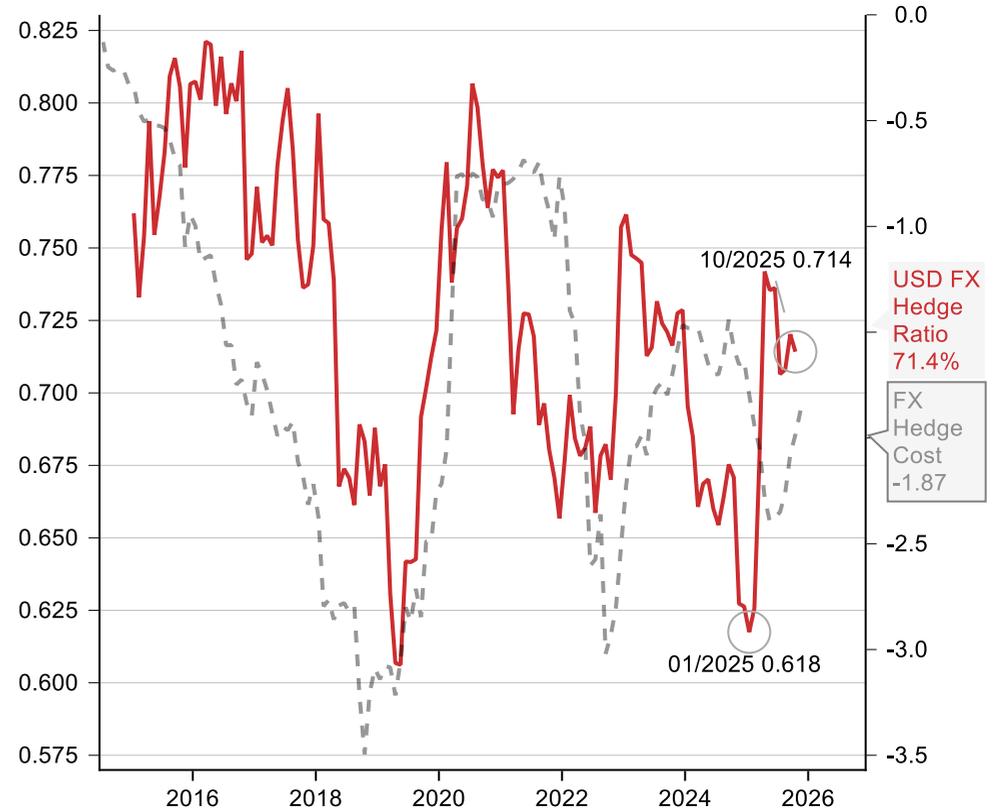
Leading Indicators, Citi, Economic Surprise Indices



— United Kingdom — United States — Euro Area

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



Core and Periphery Spreads Summary view – 2026: The Year Before Elections

-  **2025 was a year of EGB spread compression, with the concepts of core, semi-core and periphery being put to the test.** We think 2026 will see a continuation of this theme.
-  **Germany is undergoing a change in paradigm: from Schäuble’s “schwarze Null” to Merz’s Bazooka Blast.** There are still some doubts about whether Germany will be able to spend all this money they are planning to spend, but if they do, it should support German growth. While most of it will be funded via revenues, borrowing needs are expected to increase from around €57bn in 2024 to around €180bn in 2026. This should keep the pressure on Bund yields, outright and on ASW, support the steepening of the Bund yield curve, and see EGB spreads compress.
-  **France is suffering from two problems that are feeding off each other: worsening debt sustainability and a fragmented political backdrop.** The next Presidential elections are very close (2027), which makes any fiscal-tightening commitment hard to pull off. Rating risks are on the downside and markets have readjusted to the new picture, with BTPs now trading through OATs except in the very long end. We think this is the new normal – France is the new Italy.
-  **Italy has been 2025’s poster child. The lack of political noise, their fiscal consolidation (outperforming!) and BTP’s more attractive C&R profile are all to blame.** There’s still around two years of Meloni and fiscal risks seem to be under control. We do wonder how long the BTP reign will last with growth being lacklustre and the fiscal news already in the price. However, on the other hand, C&R and the lack of a specific catalyst makes it tricky to express widening BTP spread views.
-  **Spain is in our view the strongest credit thanks to growth outperformance and fiscal consolidation.** It has been one of the big beneficiaries of France’s political stress and cheapening of OATs. Spain is the new France. The key risk we see for 2026 is any sort of political pressure. However, even then, risk is contained as the opposition parties are seen as more fiscally conservative vs the government. We like to buy SPGB on dips.



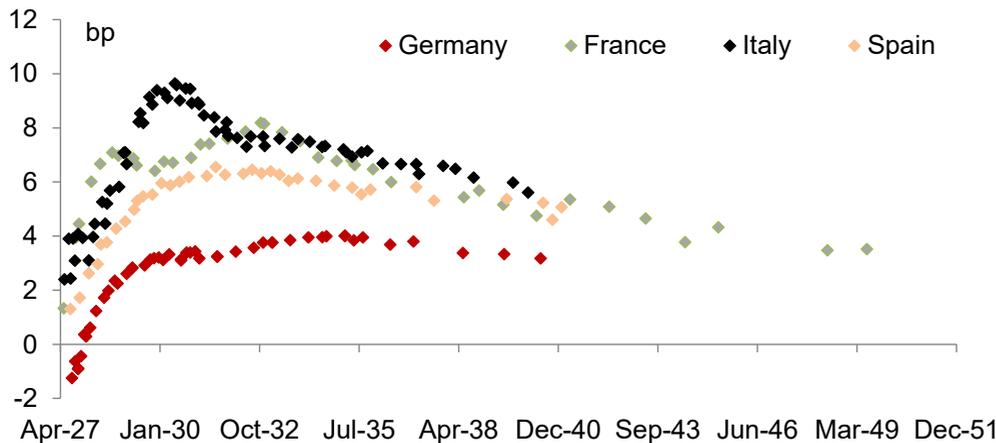
EGBs (GE/FR/IT/SP) - Snapshot

- Core-periphery compression continues to have tailwinds for 2026.
- France is the new Italy. Italy is the new Spain. Spain is the new France.
- Italy is starting to look a bit too rich vs Spain, but carry is better in BTPs.

Mizuho EMEA's fundamental scoreboard (lower score = ranking higher)

	Germany	France	Italy	Spain
Yield pick-up	4	2	1	3
Politics	1	4	2	3
Fiscal consolidation: How the govt is acting	4	3	1	2
Debt load: Situation the country is at	1	4	3	2
Economic growth	2	4	3	1
Rating risks	3	4	2	1
Issuance risk	4	2	3	1
TOTAL	19	23	15	13
TOTAL (without Yield pick-up)	15	21	14	10

Mizuho EMEA's C&R tracker of cash EGBs (bp/3m)



Market pricing – Z-Scores (1-year window)

Outright	2Y	3Y	5Y	7Y	10Y	15Y	20Y	30Y
GE	0.6	0.8	1.0	1.1	1.1	1.3	1.4	1.4
FR	0.7	0.8	0.8	1.0	1.1	1.2	1.3	1.4
IT	-0.2	-0.3	-0.6	-0.5	-0.7	-0.6	-0.2	-0.1
SP	-0.3	-0.4	0.2	1.2	0.1	0.3	0.1	0.5

Note: Low z-score suggests rich; high z-score suggests cheap

Swap Spds	2Y	3Y	5Y	7Y	10Y	15Y	20Y	30Y
GE	-1.2	-0.7	-0.6	-0.4	0.1	0.0	-0.1	1.0
FR	-0.7	-0.4	0.1	0.2	0.1	0.3	1.0	1.2
IT	1.9	1.8	1.8	1.9	1.8	2.0	1.8	2.1
SP	1.9	2.1	1.3	-0.2	2.4	2.5	2.4	2.3

Note: Low z-score suggests cheap; high z-score suggests rich

EGB Spds	2Y	3Y	5Y	7Y	10Y	15Y	20Y	30Y
OAT-Bund	0.3	0.0	-0.4	-0.5	0.0	-0.3	-1.1	-0.4
BTP-Bund	-2.2	-1.7	-1.6	-1.6	-1.7	-1.9	-1.8	-2.0
SPGB-Bund	-2.0	-1.9	-1.3	-0.1	-2.4	-2.6	-2.3	-2.3
BTP-OAT	-1.5	-1.4	-1.2	-1.7	-1.7	-1.8	-1.7	-2.0
BTP-SPGB	0.1	0.2	-1.5	-2.2	-1.2	-1.2	-0.5	-1.4
SPGB-OAT	-1.4	-1.4	-0.7	0.3	-1.8	-1.8	-2.0	-2.0

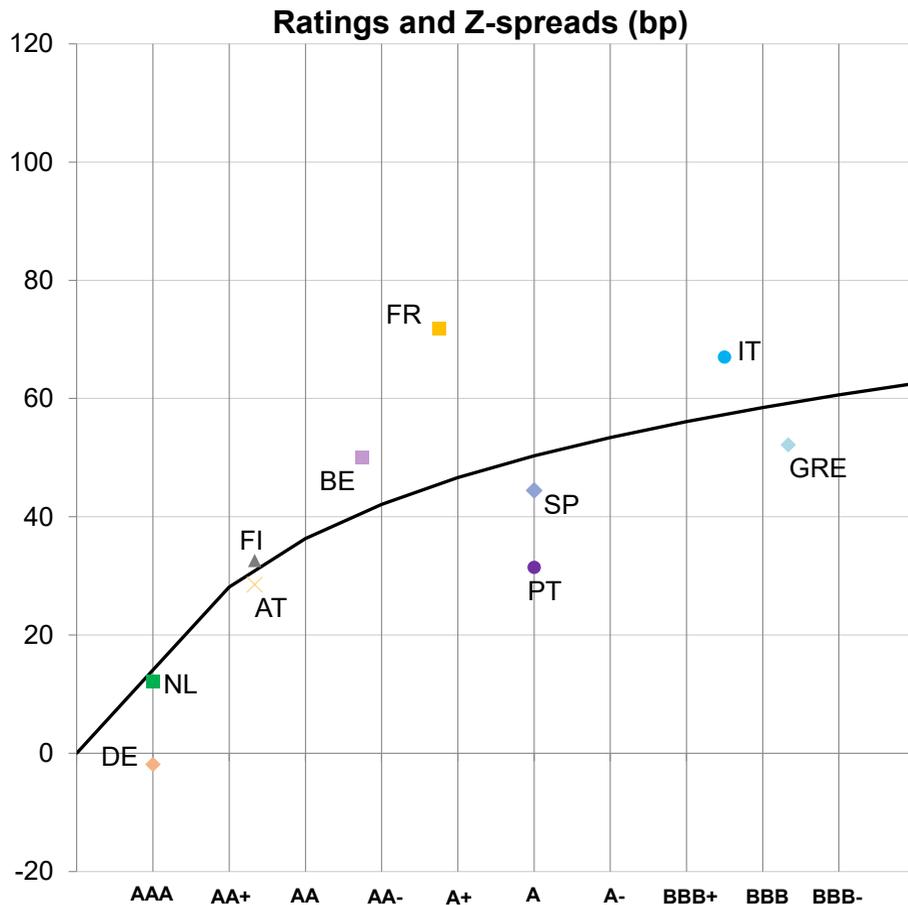
Note: Low z-score suggests spread is too tight; high z-score suggests spread is too wide



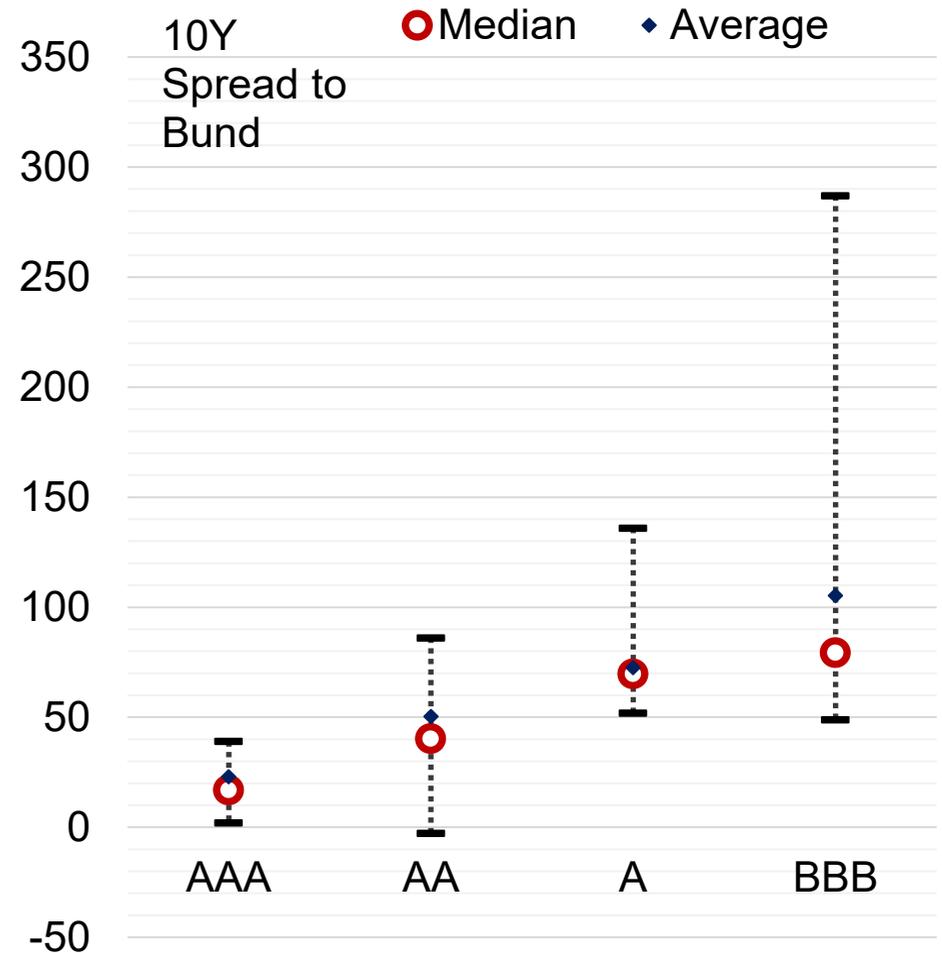
EGBs (GE/FR/IT/SP) – FV according to ratings

- France is still looking cheap vs rating buckets – perhaps the reason why investors have been buying the dip but spread ranges for single-As can be much wider.
- For 2026, we see **positive tailwinds for Italy** (especially Moody's) and **Spain**. Excluding Moody's, France is unlikely to be downgraded further, but the **balance of risks is to the downside**.

OATs and BTPs look cheap vs rating fit



Spread ranges for each rating bucket



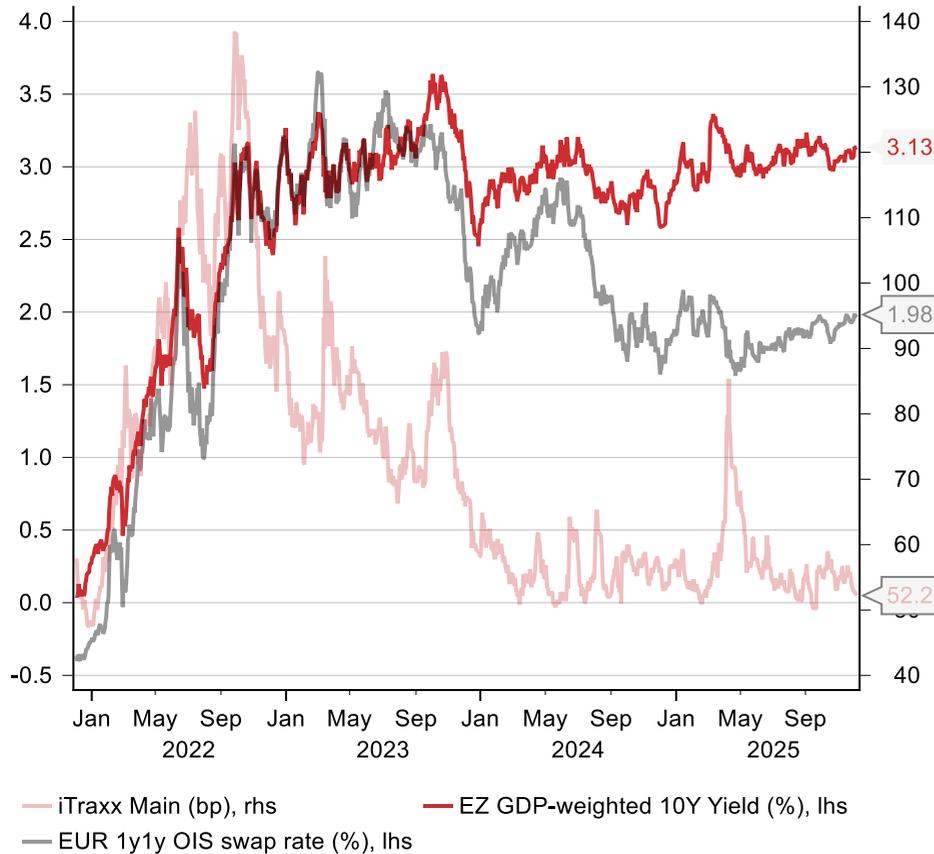


EGBs (GE/FR/IT/SP) – FV vs terminal ECB rates and EUR IG Credit

- VS 1y1y and iTraxx Main
- 1y1y and credit still explain a good chunk of the move in EGB spreads, but betas have been decreasing

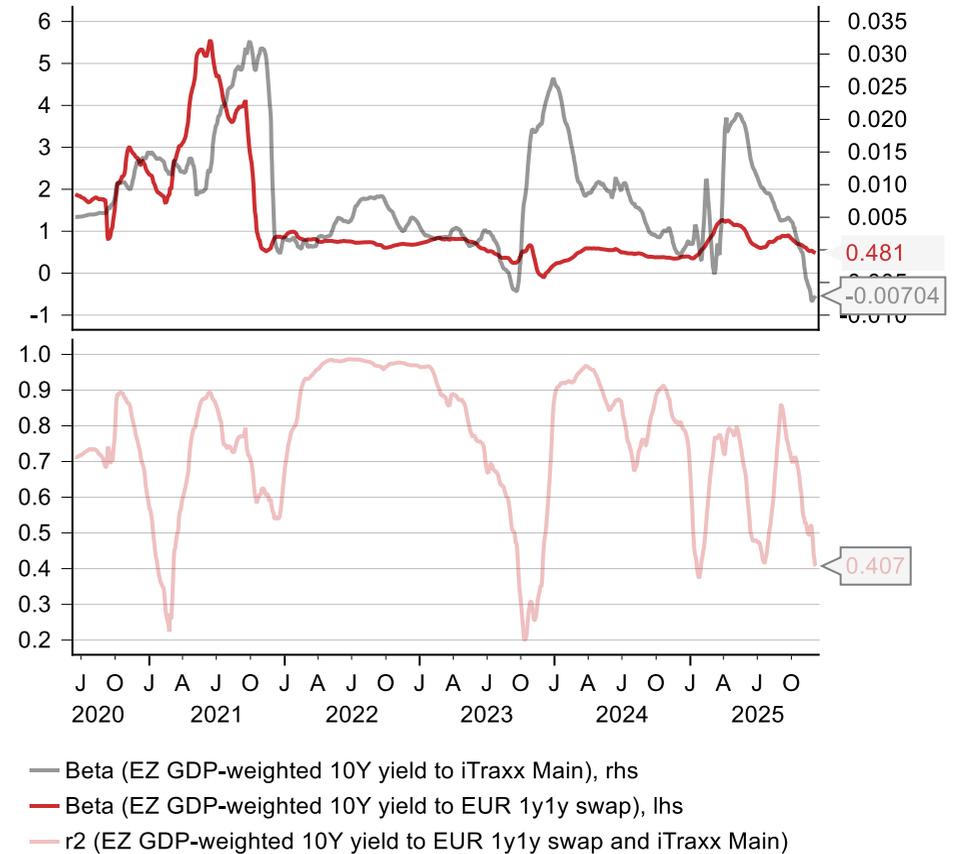
EGB spreads vs ECB's terminal rate pricing and EUR IG credit

Directionality of EGB spreads



Beta and r2

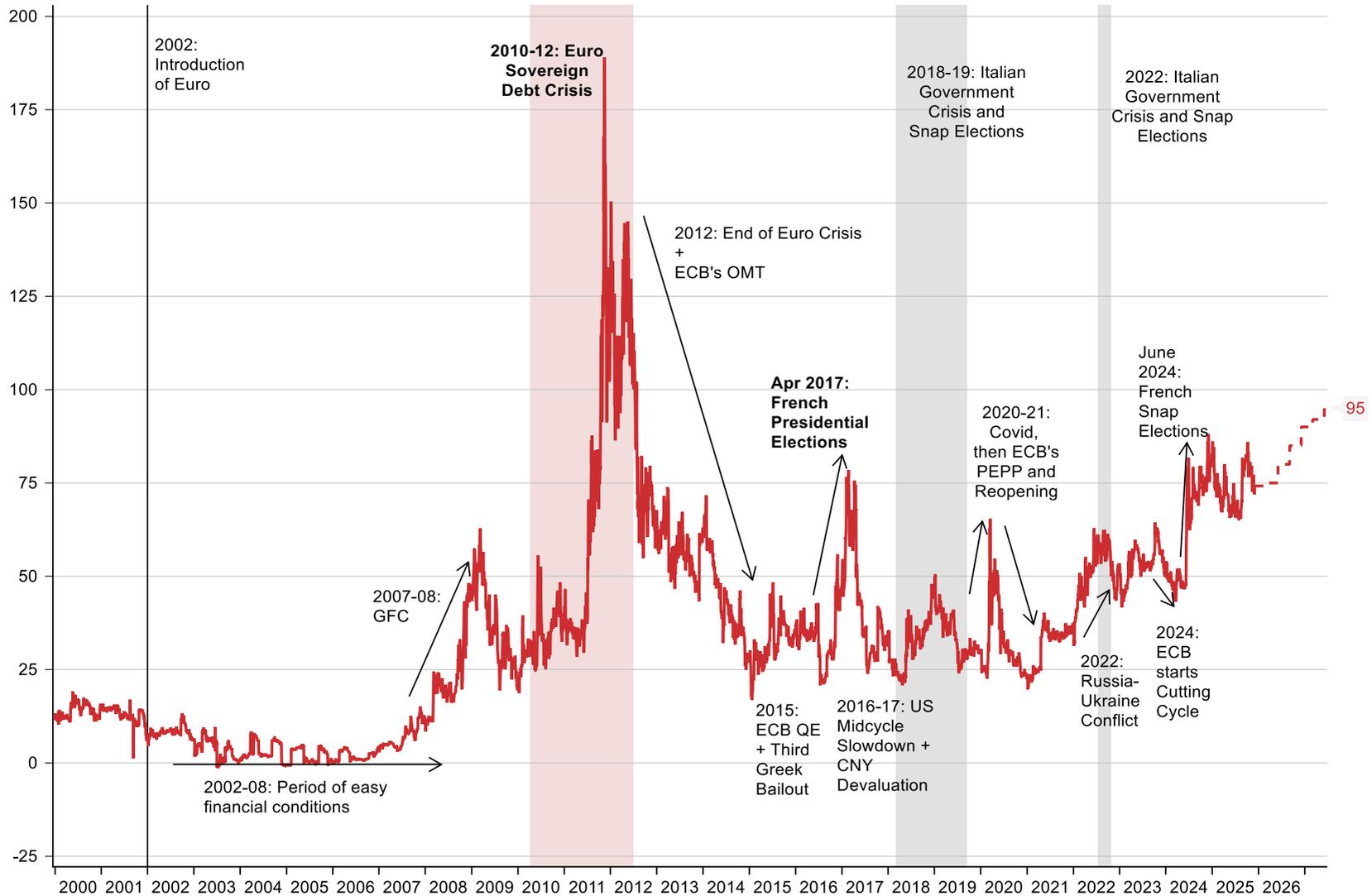
Using a 6-month rolling regression window





10Y OAT-Bund Spread Snapshot

10Y OAT-Bund spread (bp)



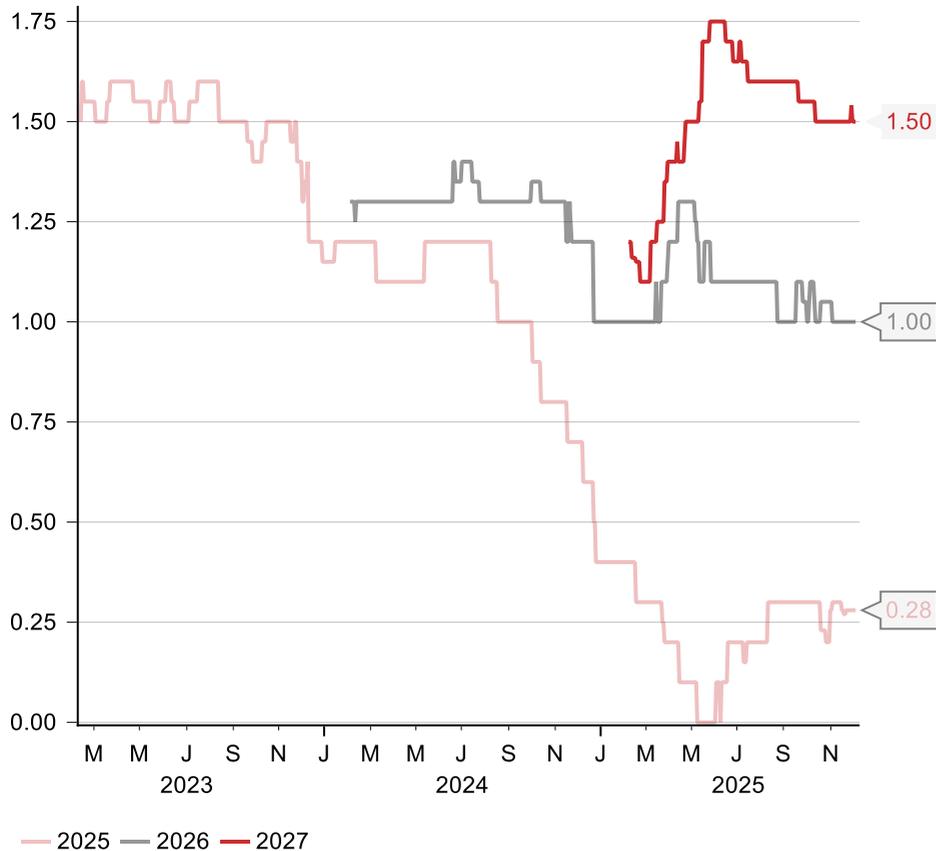


Germany: Growth and labour market

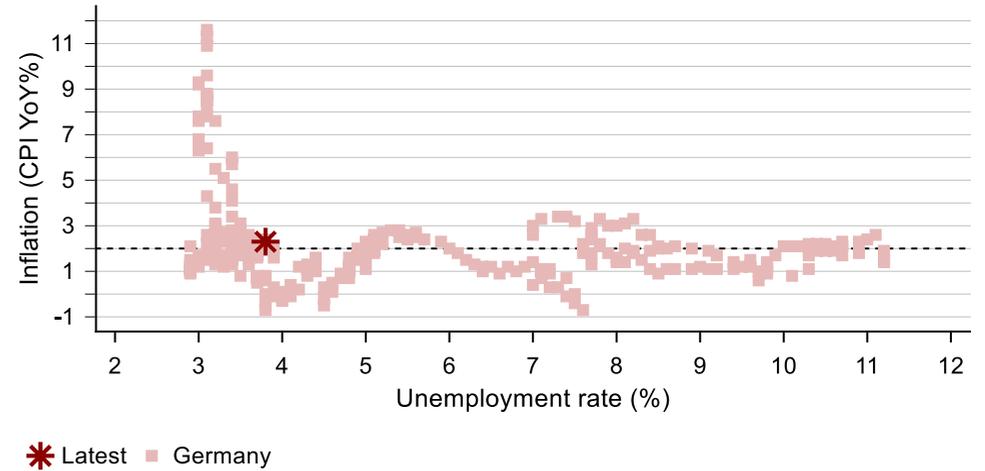
• Economic snapshot.

Growth expectations

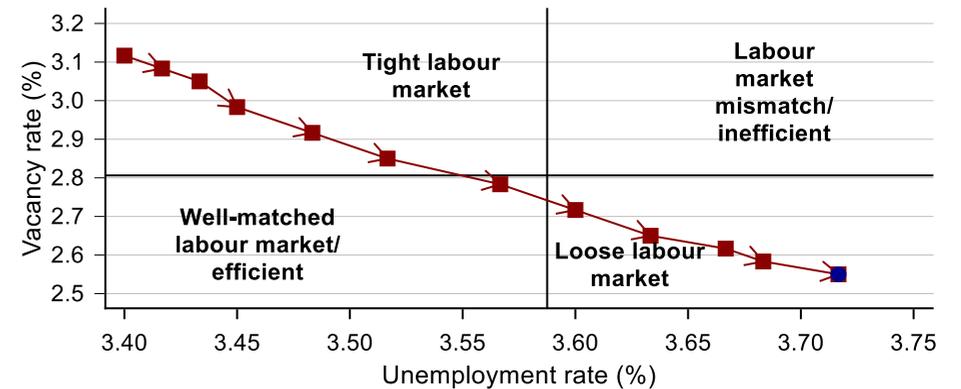
Bloomberg Economic Consensus on German real GDP growth (%)



Phillips and Beveridge curves



Germany's Beveridge curve



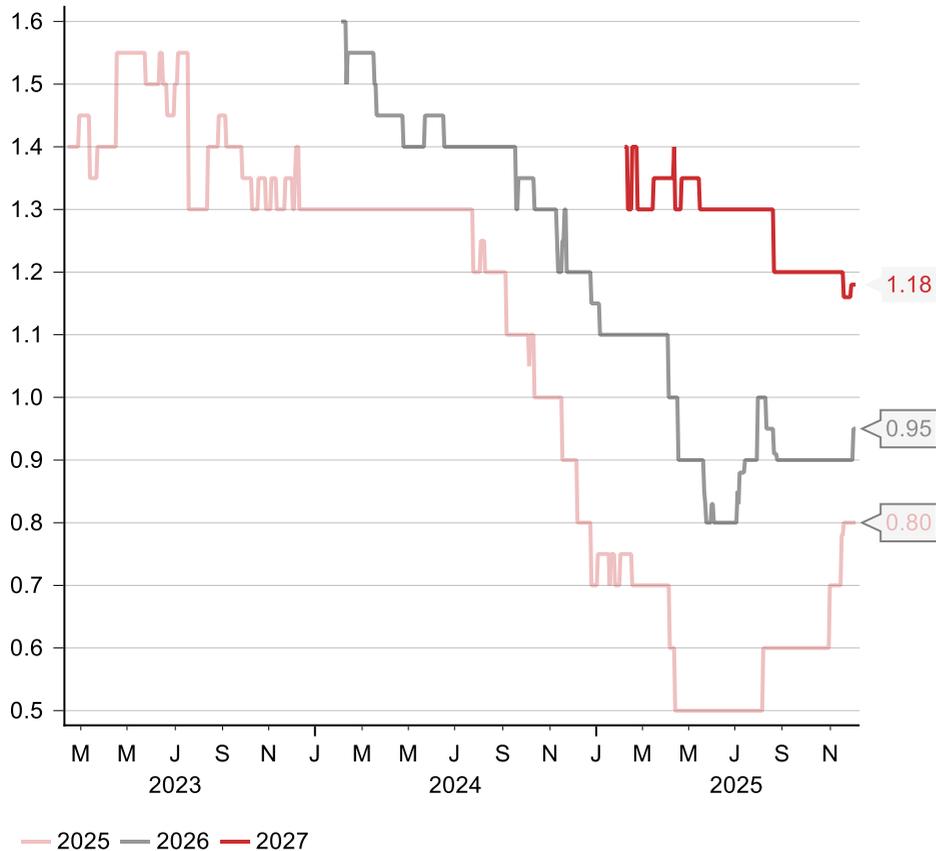


France: Growth and labour market

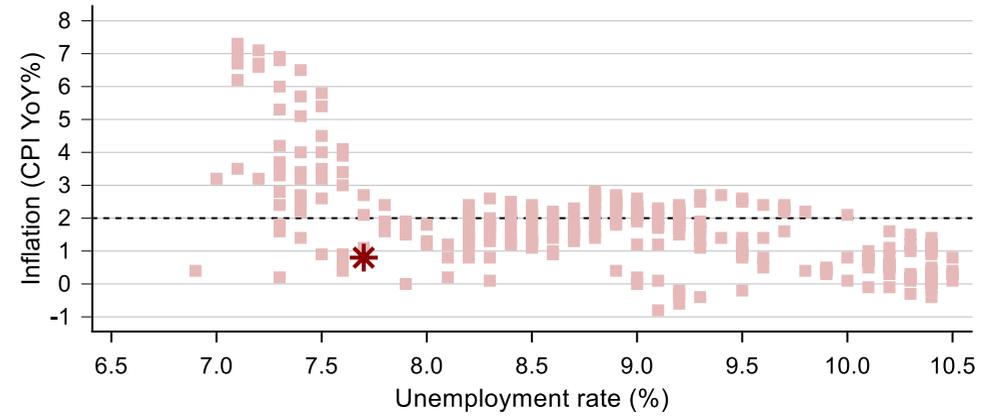
• Economic snapshot.

Growth expectations

Bloomberg Economic Consensus on French real GDP growth (%)

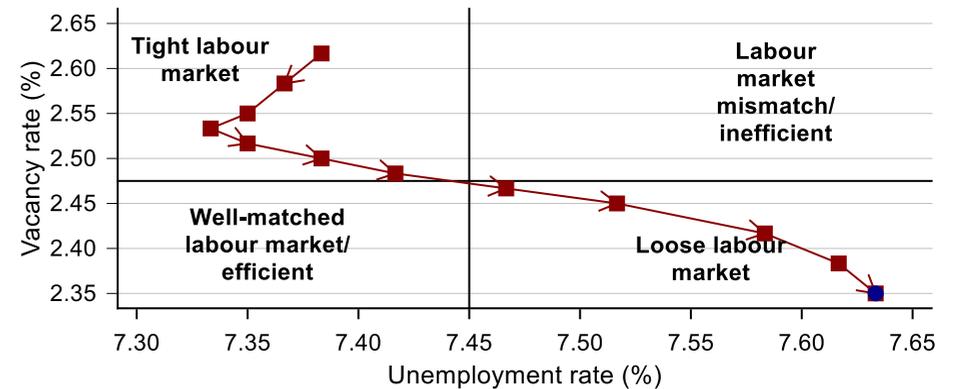


Phillips and Beveridge curves



* Latest ■ France

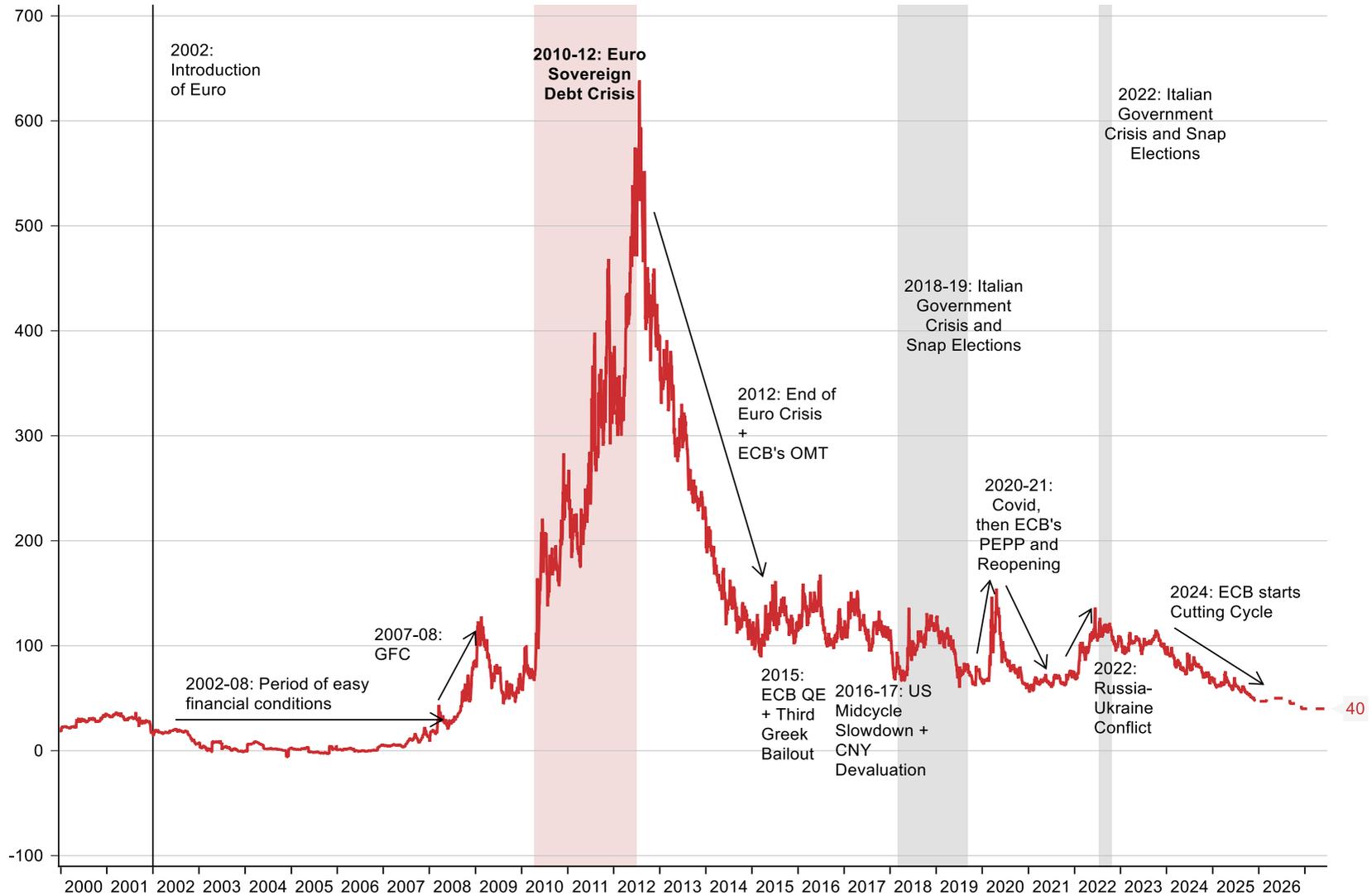
France's Beveridge curve





10Y SPGB-Bund Spread Snapshot

10Y SPGB-Bund spread (bp)





10Y BTP-Bund Spread Snapshot

10Y BTP-Bund spread (bp)



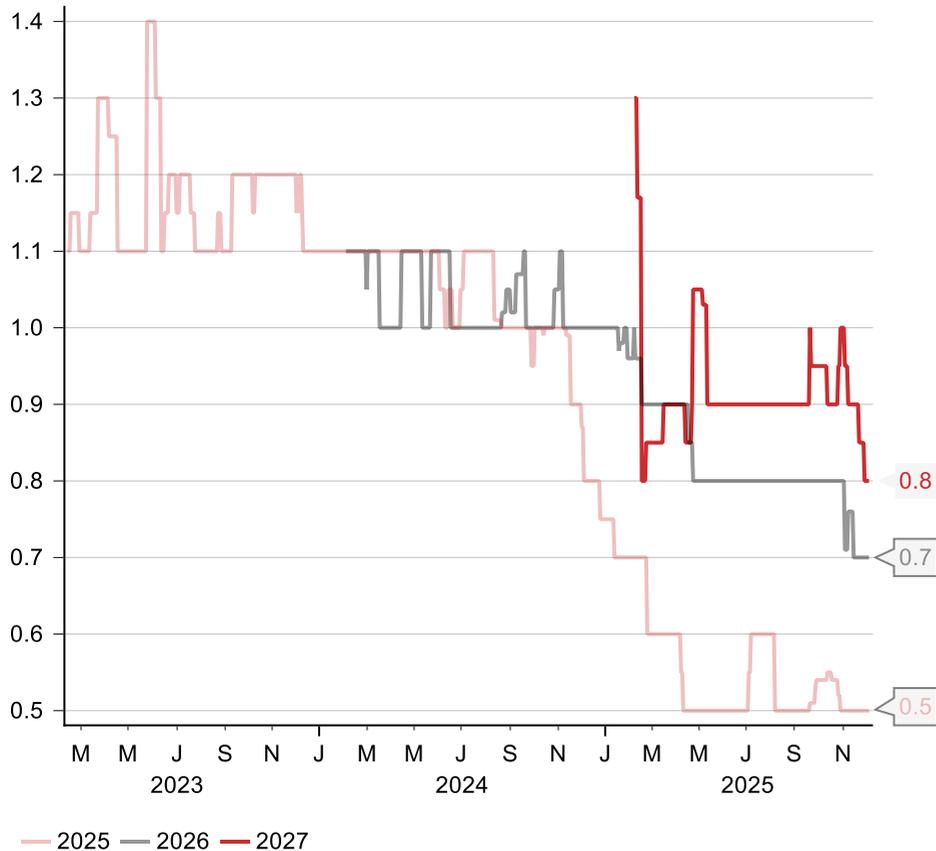


Italy: Growth and labour market

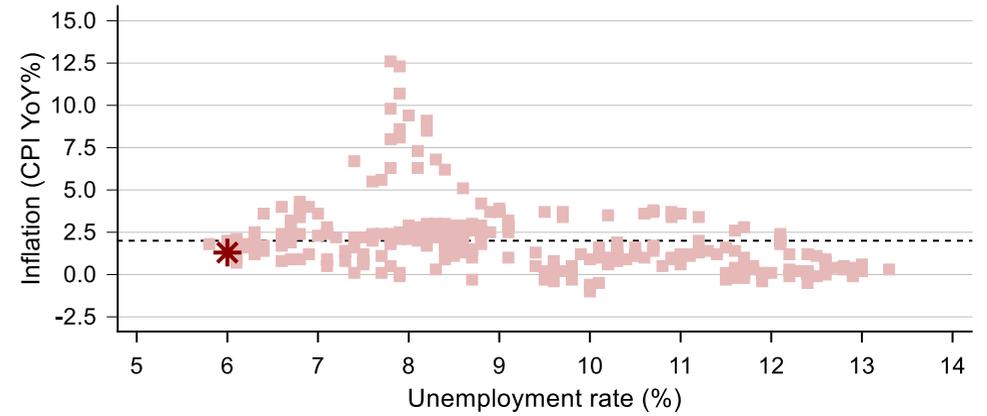
• Economic snapshot.

Growth expectations

Bloomberg Economic Consensus on Italian real GDP growth (%)

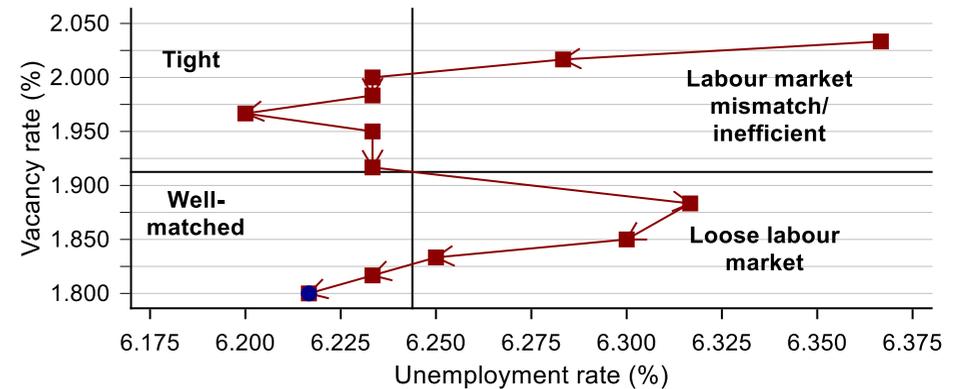


Phillips and Beveridge curves



* Latest ■ Italy

Italy's Beveridge curve



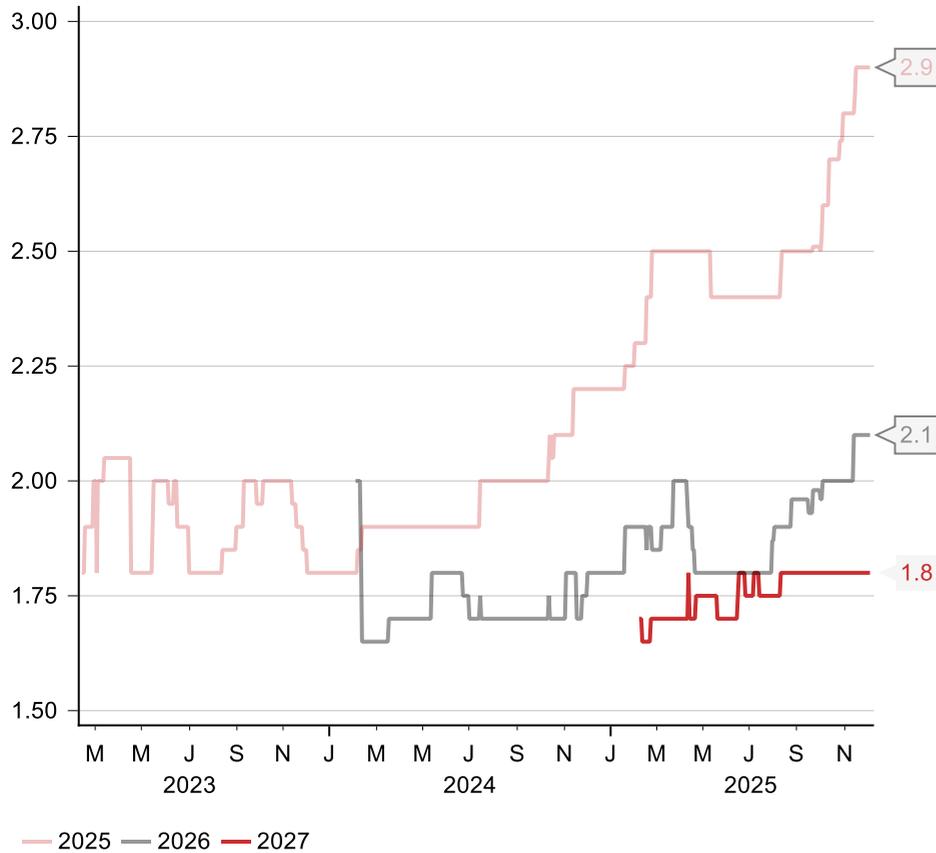


Spain: Growth and labour market

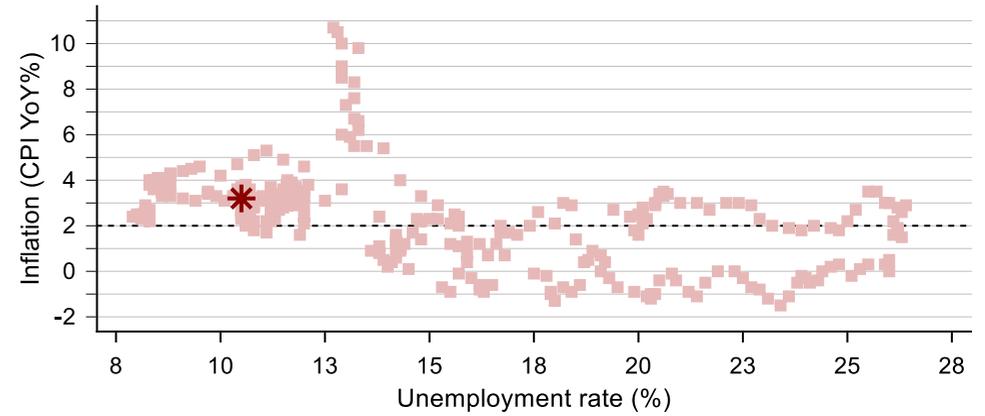
• Economic snapshot.

Growth expectations

Bloomberg Economic Consensus on Spanish real GDP growth (%)

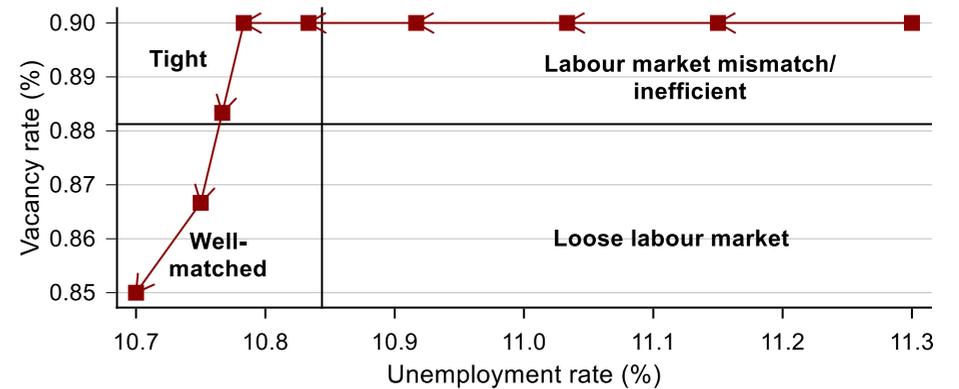


Phillips and Beveridge curves



* Latest ■ Spain

Spain's Beveridge curve





EUR rates in the angle of a Japanese investor

- After being underweight OATs during 2024/25, Japanese investors have been tentatively building their positioning again. Spanish debt holdings are not the largest out of the Top 4 EGBs.
- OATs and BTPs provide a pick-up vs JGBs – perhaps the reason behind the recent build-up in OATs.

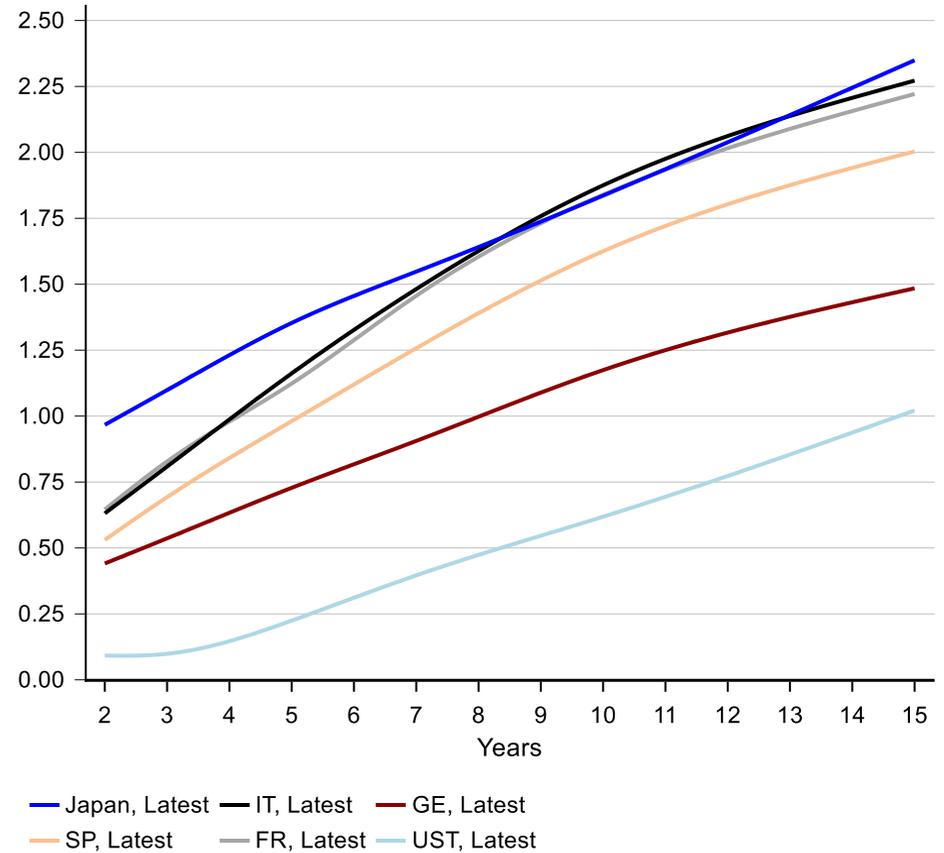
EGB aggregate holdings proxy

Approximation of aggregate holdings of EGBs by Japanese investors since 2014 (index: 2014=0), includes Spanish debt



Yield curves snapshot

Yield curves with FX hedge to JPY (%)

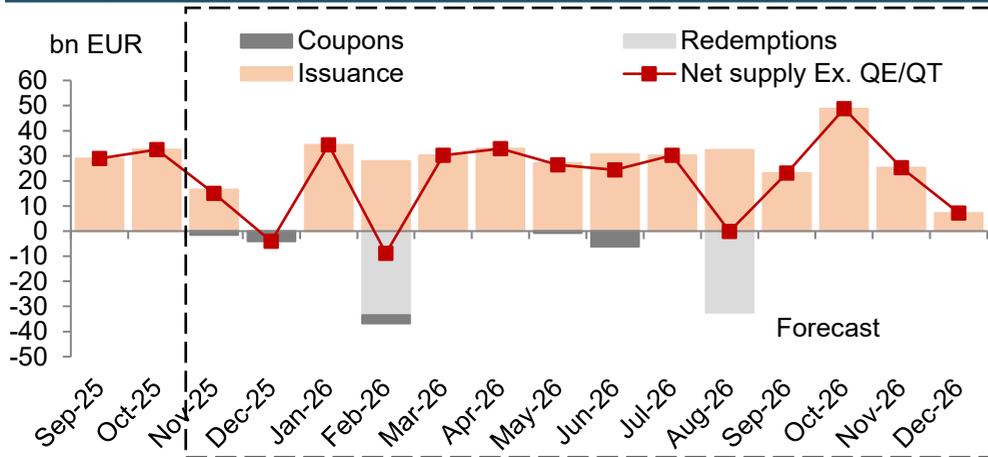




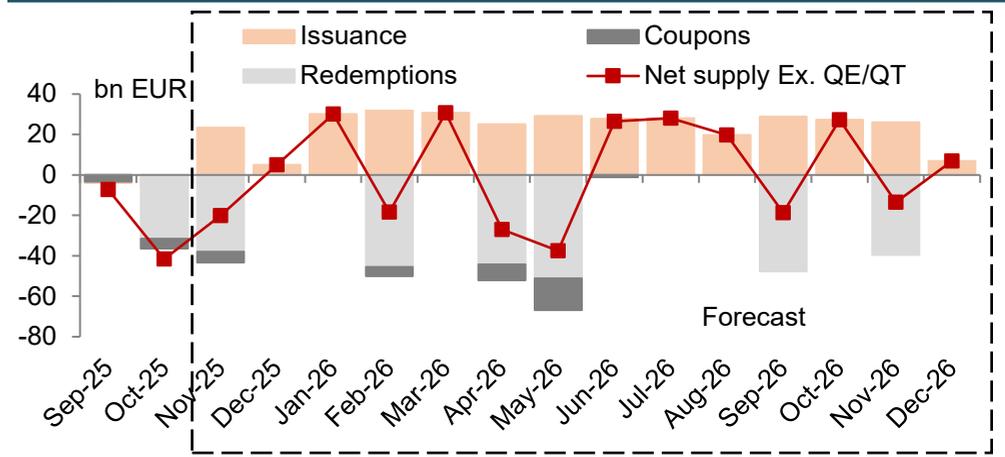
EGB 2026 Supply Summary: Still elevated gross supply

- **Bunds:** Increased bearish pressure from the issuance side given the fiscal expansion, with a higher gross and net supply vs '25.
- **OATs:** Despite the slightly higher gross issuance vs '25, net supply will decrease to around half vs '25 thanks to larger redemptions.
- **BTPs:** Similar issuance vs '25, but the larger redemptions will make net supply more supportive for BTPs vs '25.
- **SPGBs:** We expect another roll of the budget, continuing the fiscal consolidation. This will be offset by larger redemptions = similar issuance vs '25.

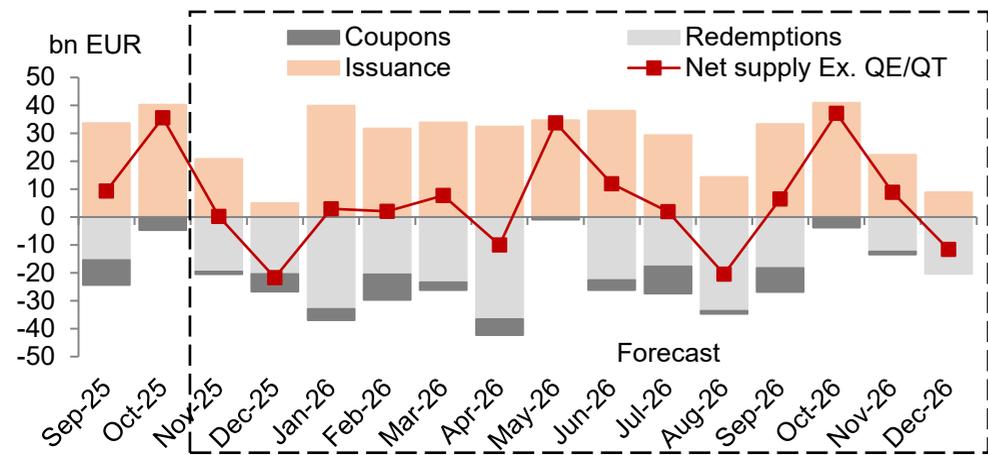
Bunds: Increased pressure with €350bn expected



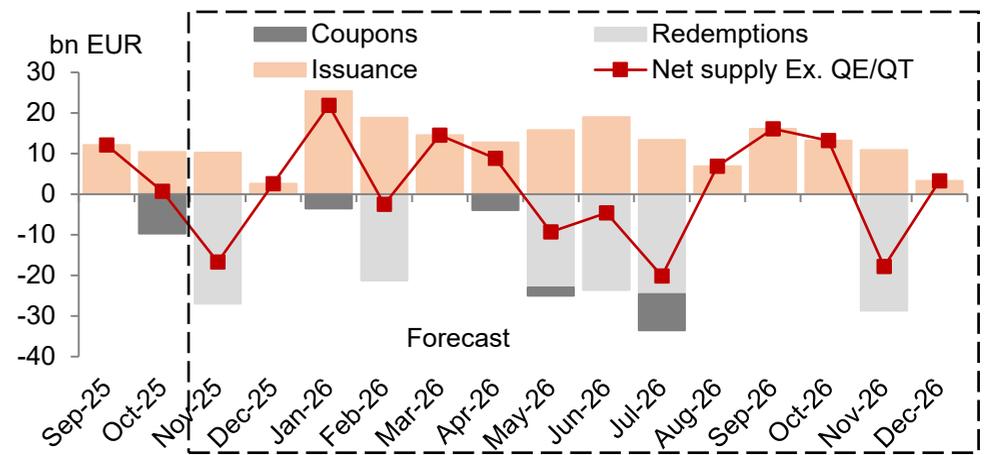
OATs: €310bn medium and long-term issuance expected



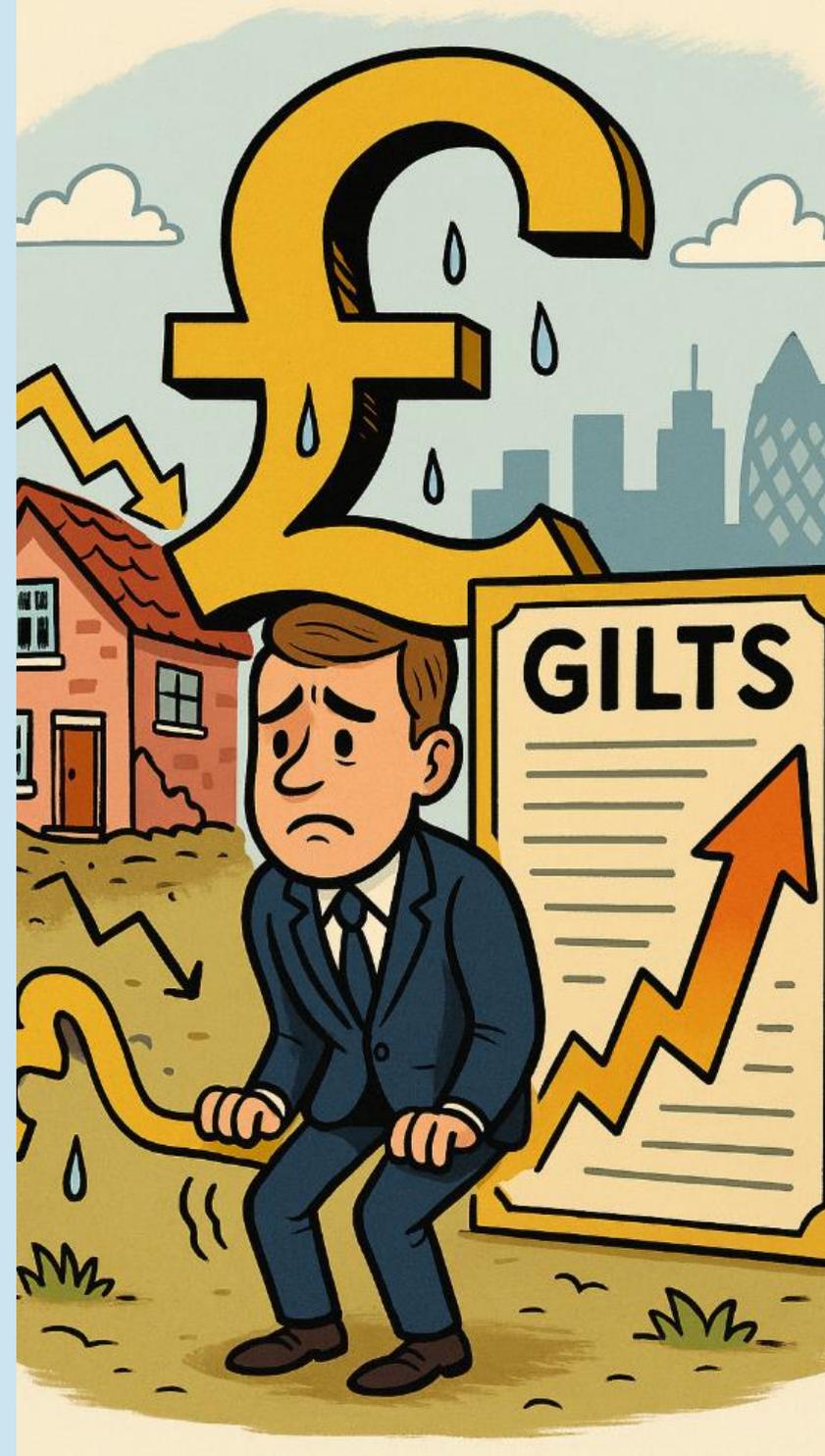
BTPs: €360bn issuance expected



SPGBs: €170bn issuance expected



2026 UK Outlook





Economic and Monetary policy outlook for the UK in 2026

GBP: Gilt outperformance amid a fiscally constrained UK budget and strong disinflation pressures in a weak housing market

- **The Data:** Growth in the UK is set to disappoint BoE forecasts with the Service sector suffering from budget induced tax hikes but also a structurally slower housing market that will have second round effects for tertiary industries. For the past two years UK GDP has realised between 1-2% y/y vs the 1-3% range in the post GFC period. The sluggish domestic growth could be partially offset by an uptick in Global growth but we expect to see UK underperformance in 2026. UK budget tax cuts on VAT and other measures could take off 0.4% from UK CPI alone, add on top of that slower Global food prices and housing rents **the UK Inflation risks are to the downside** here in our view.
- **The BoE:** The Bank have been too focused on realised inflation and less forward looking than in previous cycles thanks to a) forecast errors in recent years and b) low data quality from the ONS. But that will change with the upcoming budget lowering inflation via VAT cuts, growth faltering and unemployment rising in the UK. **We expect the BoE to cut rates in December by 25bps** and then follow a quarterly path (at MPR meetings) **until July at 3% the mid-point of neutral assumptions by the BoE.**
- **Rates:** We see **10Y Gilts breaking the lower end of their 4.35–4.85% range** that has held for most of the year. Term premia is elevated vs the US and EU, which together with a dovish BoE continue to make Gilts an attractive buy on dips. The shift away from long-term issuance will continue to drive the flattening of the long end segment, but later in 2026 we may see an increase in worries around the backloaded nature of announced measures and possible political risk. **Swap spreads to remain supported, especially in the long end, thanks to the lack of issuance pressures.**
- **FX:** With the USD on the back foot and global growth momentum improving, GBP is positioned to outperform but a dovish BoE outlook holds it back vs EUR and JPY. **We expect EUR/GBP to drift toward 0.92 by Dec-26**, while GBP/USD holds around 1.31 to 1.33 through 2025–26.
- **Politics:** Keir Starmer is the most unpopular Prime Minister in UK public opinion polling history going back to the 1970s, an impressive feat for an administration just over a year in office. Part of that is due to a weaker mandate from the public than past administrations (Labour had a historically low level of popular vote share given the size of majority won). With the Labour party polling below both the Reform and Conservative parties and losing what remaining votes they have to the Greens **we expect a weak showing in Local elections in May 2026 could trigger a leadership contest for the Labour party.** Could this be the UK's fifth PM in four years?



Event Risks ahead (UK)

Timeline of risk events:

December 2025

- **16 Dec:** Labour market data, S&P Flash PMI (Dec)
- **17 Dec: UK CPI Inflation (Nov)**
- **18 Dec: BOE Monetary Policy Summary and policy decision at 12:00 GMT**
- **19 Dec:** UK Retail Sales (Nov)
- **22 Dec:** UK GDP (3Q)
- **30 Dec:** Nationwide House Prices

January 2026

- **2 Jan:** UK Manufacturing PMI (Dec)
- **6 Jan:** UK Services PMI (Dec)
- **13 Jan:** Institute for Government Annual Conference
- **15 Jan:** UK Monthly GDP (Nov), UK Industrial Production (Nov)
- **20 Jan:** UK Average Weekly Earnings (Nov)
- **20-23 Jan:** TechSummit 2026
- **21 Jan: UK CPI Inflation (Dec)**
- **29-31 Jan:** Starmer visits China

Rest of 2026

- **Apr:** Departmental budgets reset, major cuts and reallocation likely
- **6 Apr:** State Pension age begins transition from 66 to 67
- **May:** UK-EU Trade & Cooperation Agreement Review
- **27-30 Sep:** Labour Party Conference: Liverpool
- **4-7 Oct:** Conservative Party Conference: Birmingham
- **Nov:** Autumn Budget

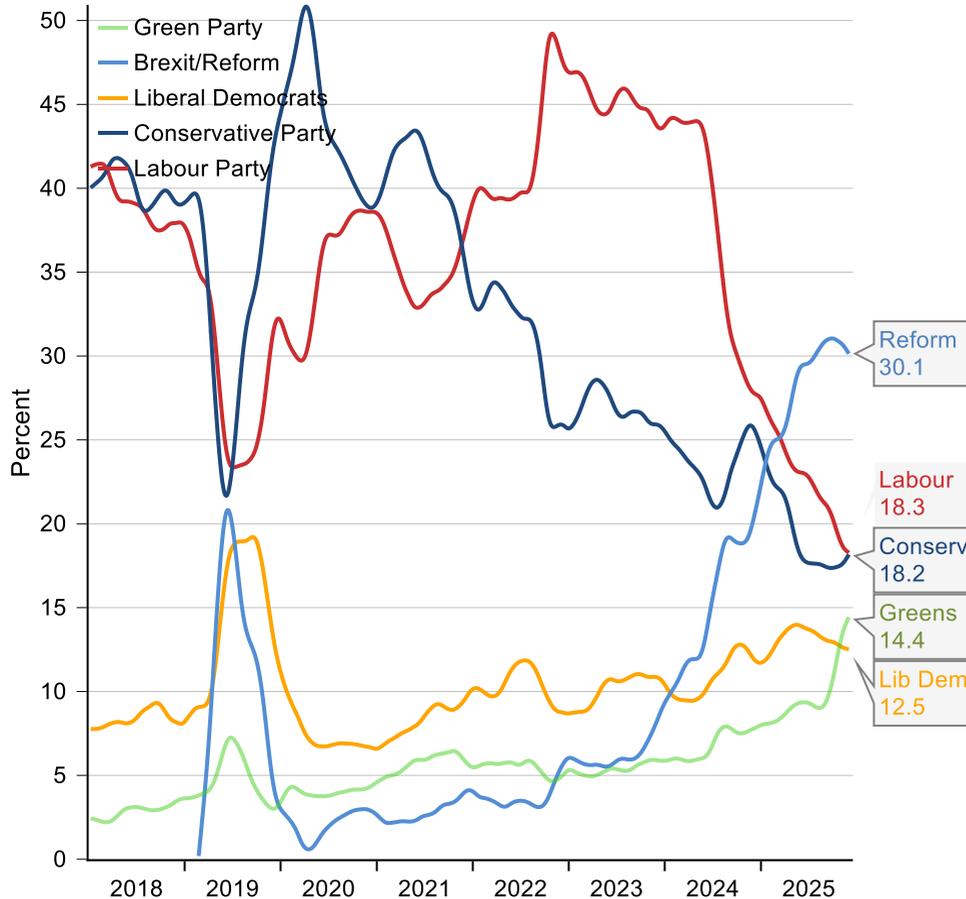


UK Politics - Public opinion turning sharply against the Labour party

- Keir Starmer has the worst opinion polling of any Prime Minister in history.
- Could we see new leadership in 2026? Local elections in May could topple the Prime Minister

UK Westminster polling (smoothed-HP filter)

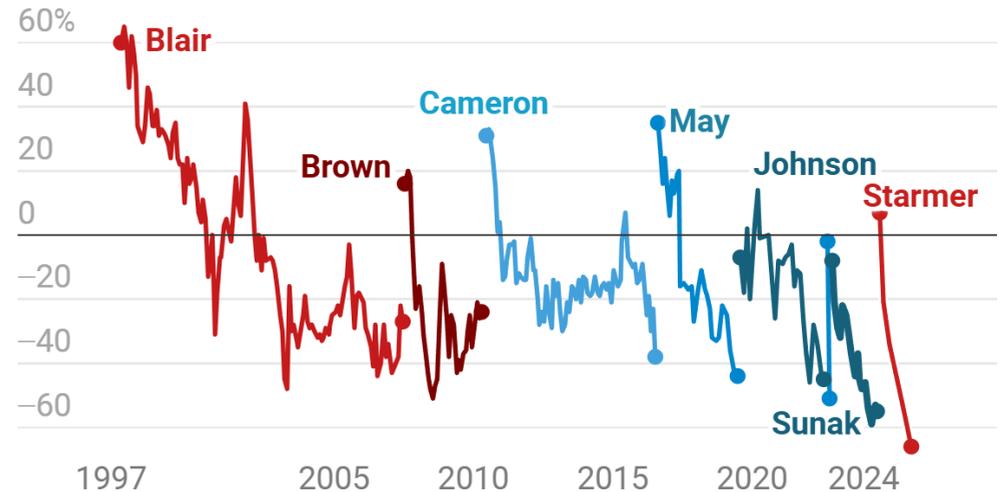
UK Opinion Polling - Next General Election (by Aug 2029)



Satisfaction with Prime Ministers

Satisfaction with prime ministers

Net satisfaction ratings from Ipsos MORI's political monitor



Figures to 17 Sept. Question: 'Are you satisfied or dissatisfied with the way the PM is doing his/her job?'

View: [From Callaghan](#) [From Blair](#)

Chart: The Spectator (j9Ki1) • Source: [Ipsos MORI](#) • [Get the data](#)

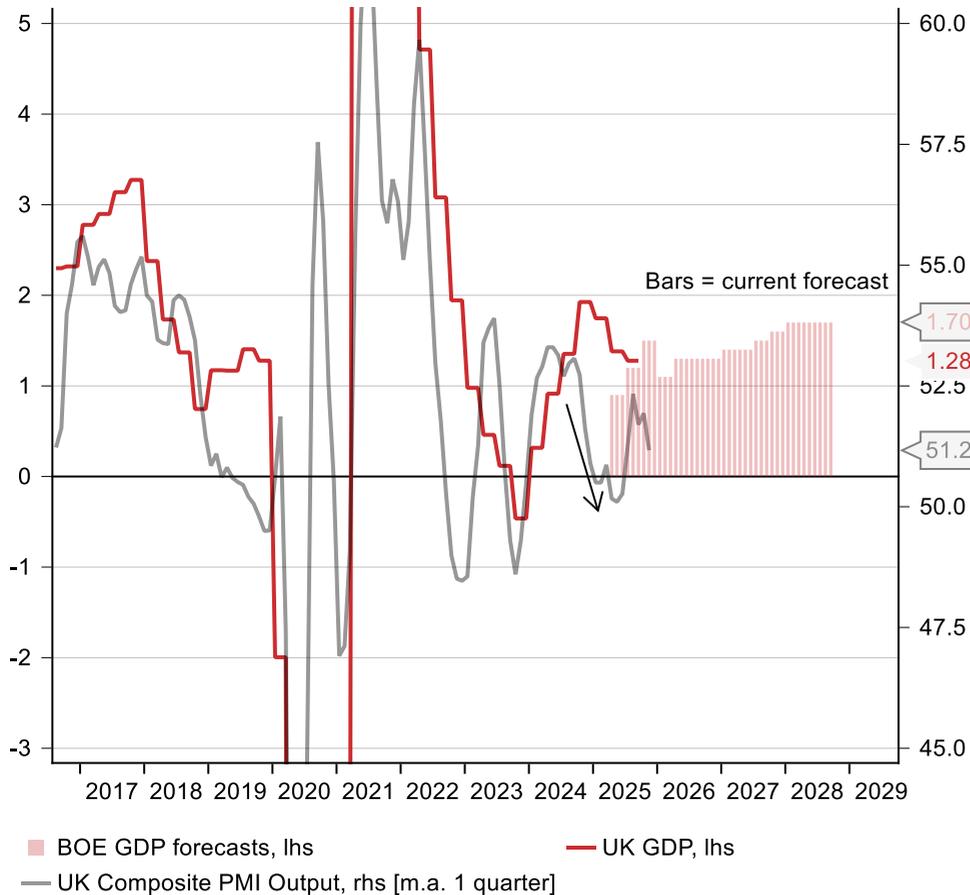


GBP Growth – overly optimistic growth forecasts?

1. Does the BoE have an overly optimistic growth outlook? Lower PMIs suggest so
2. After the Pandemic growth has been slower than the post GFC norms

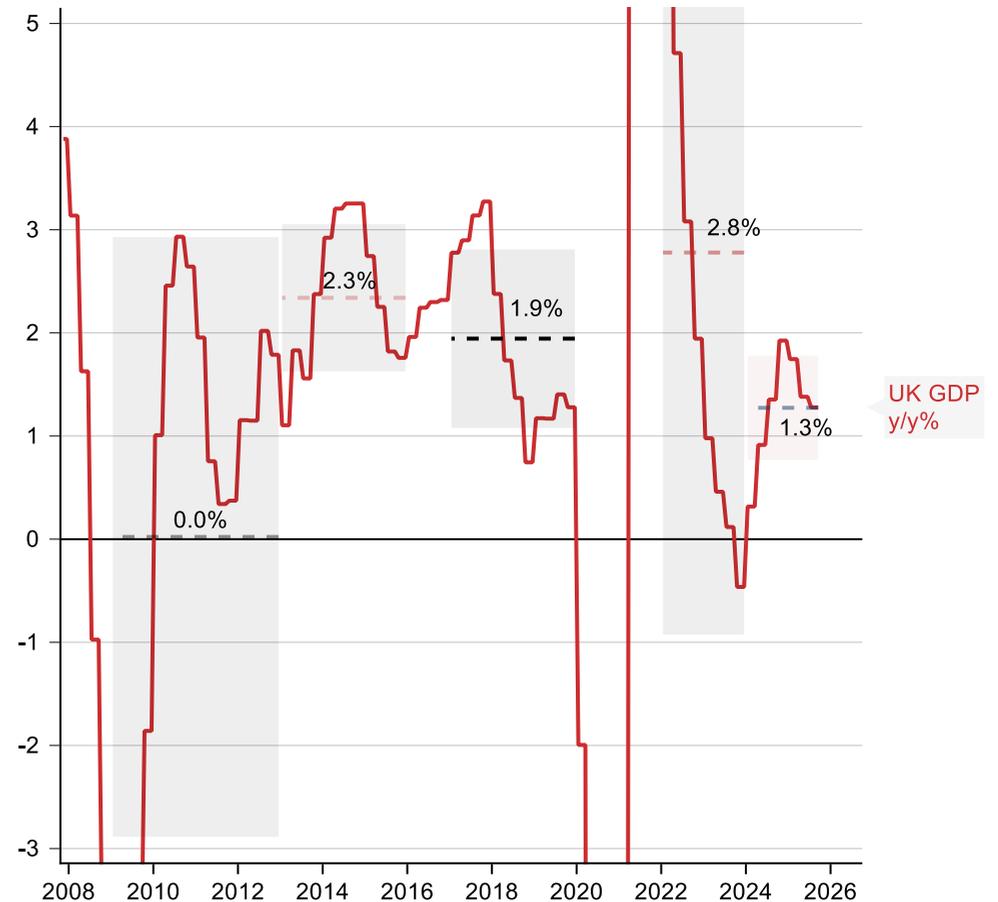
BOE GDP forecasts vs PMI

BOE GDP forecasts vs PMI



UK GDP over time – structurally slower growth ahead?

Structurally slower growth? UK GDP run rate over time y/y%.



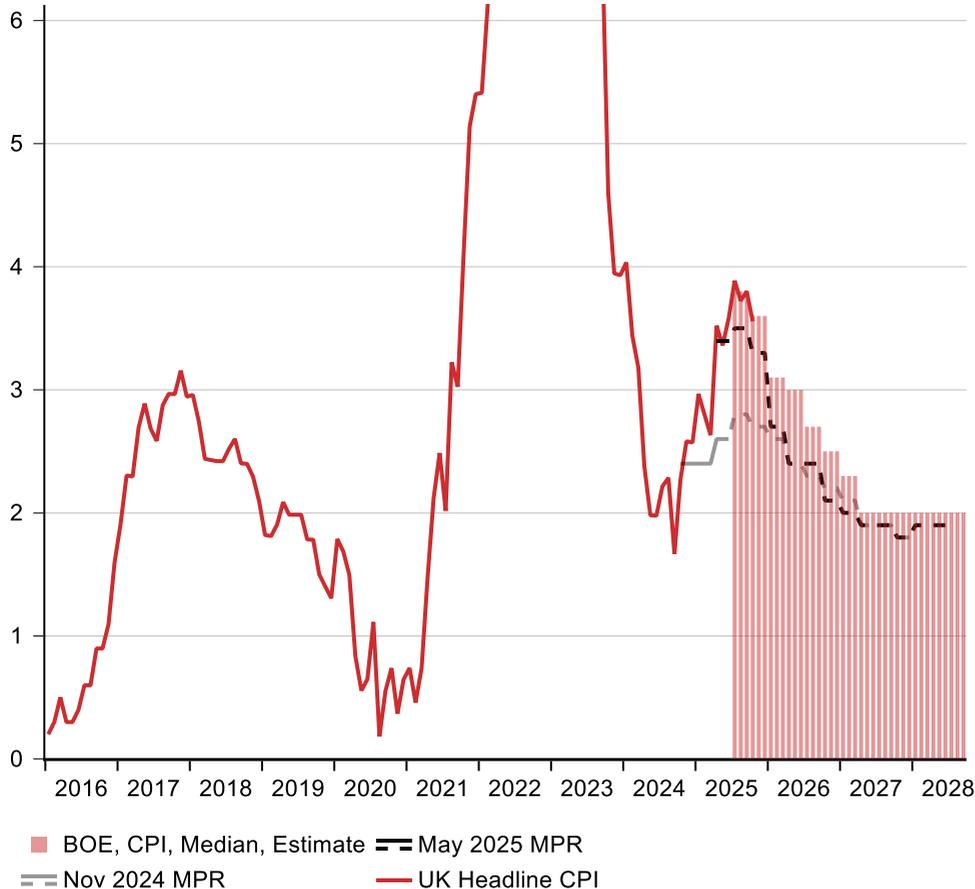


GBP Inflation – Overly hawkish given budget measures and housing slowdown?

1. Could the BoE have to downgrade their CPI forecast after the UK Budgets measures?
2. A sharp slowdown in UK housing activity could lead to weaker Services CPI

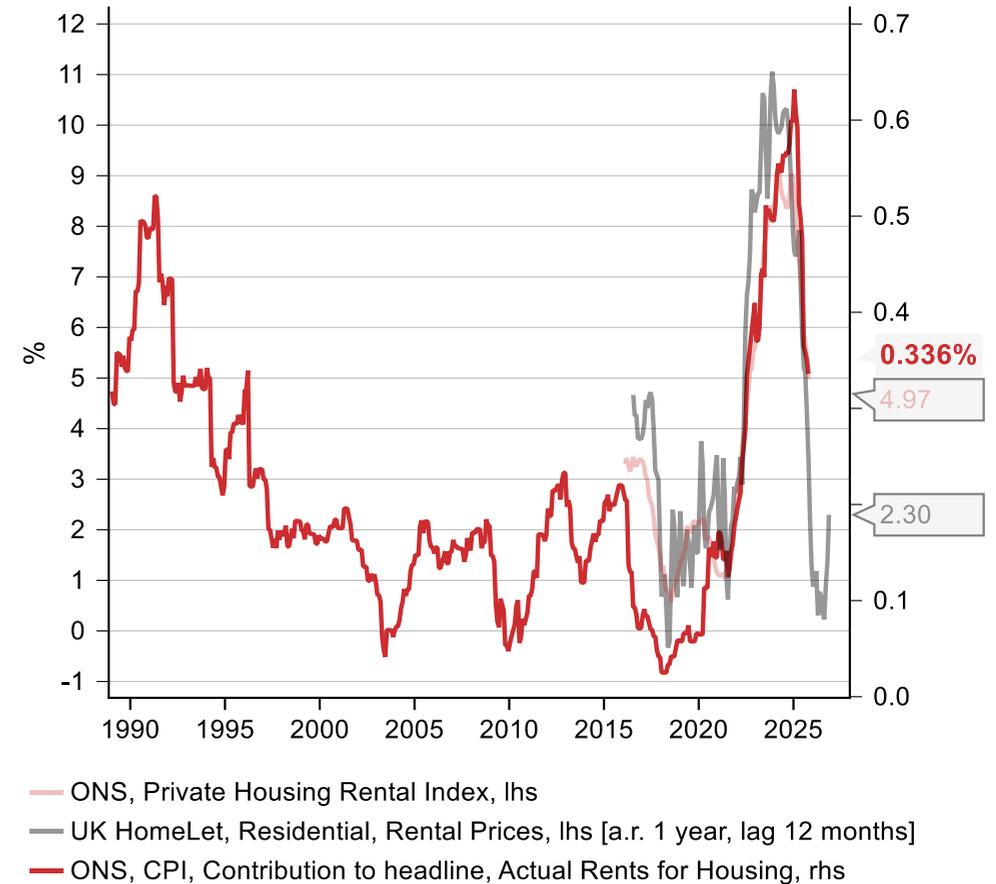
BOE GDP forecasts vs PMI

BOE CPI Estimates (quarterly) vs previous MPRs



A big slowdown in UK Housing could weigh on inflation

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



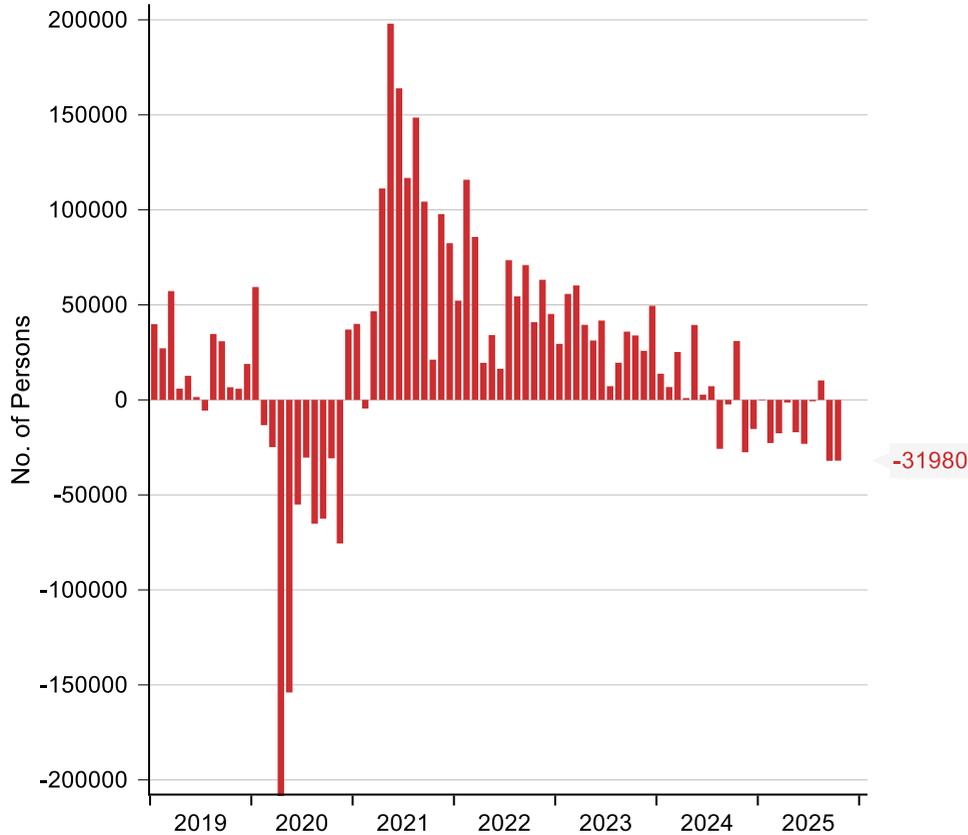


GBP Labour markets – Unemployment to rise further, but noisy data

1. PAYE hiring data suggests consistently weak Labour markets
2. The KPMG REC report on Jobs suggest a grind higher in UK unemployment to come

Consistent job losses in the UK PAYE data and rising unemployment

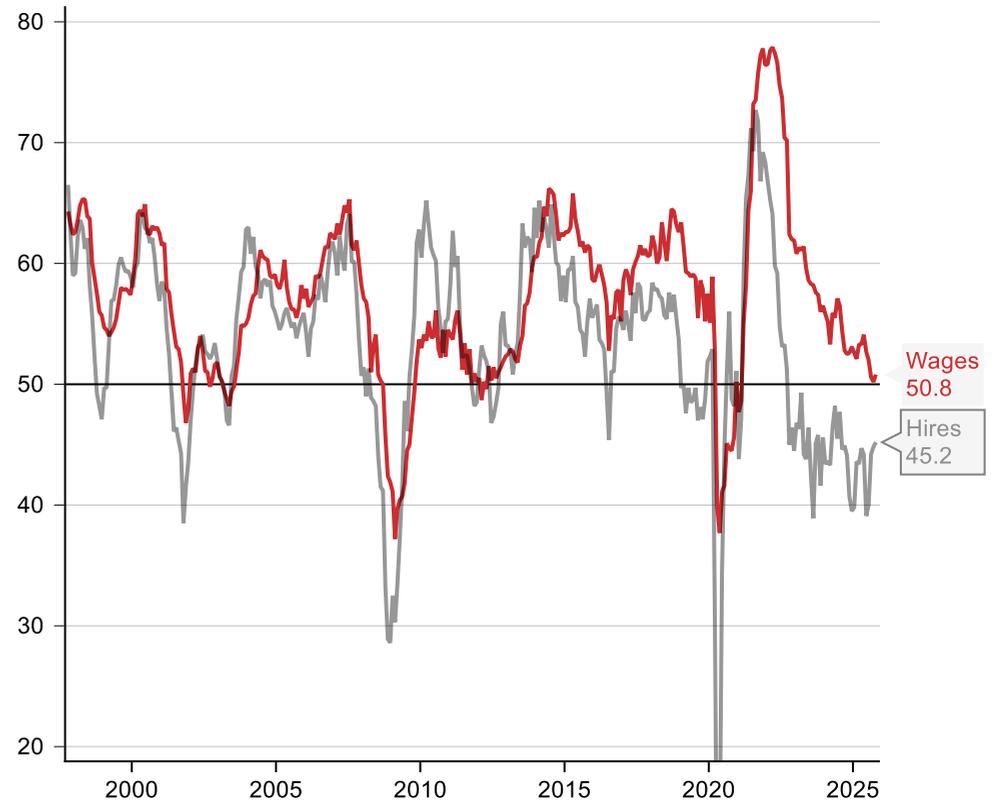
Single month PAYE employment growth



■ United Kingdom, Employment, Payroll Employees, SA

UK Labour surveys point to weak hires and wage growth

UK REC/KPMG Report on Jobs - Wages vs Hires



— UK REC Report on Jobs - Permanent placements
 — UK REC Report on Jobs - Permanent Staff Salaries



Bank of England pricing

- We expect a more dovish path ahead for the Bank of England with 3% achieved by Summer 2026
- We are close to the BoE's neutral range but not close to the mid-point yet

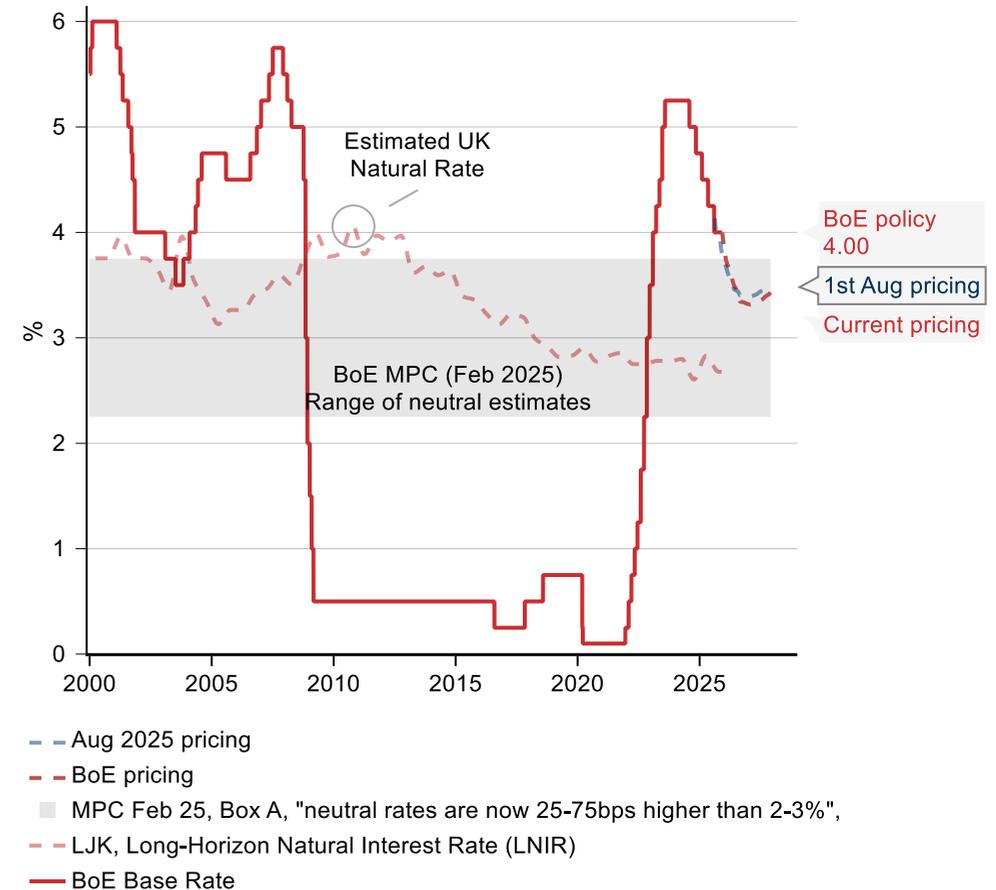
BOE pricing (SONIA futures)

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

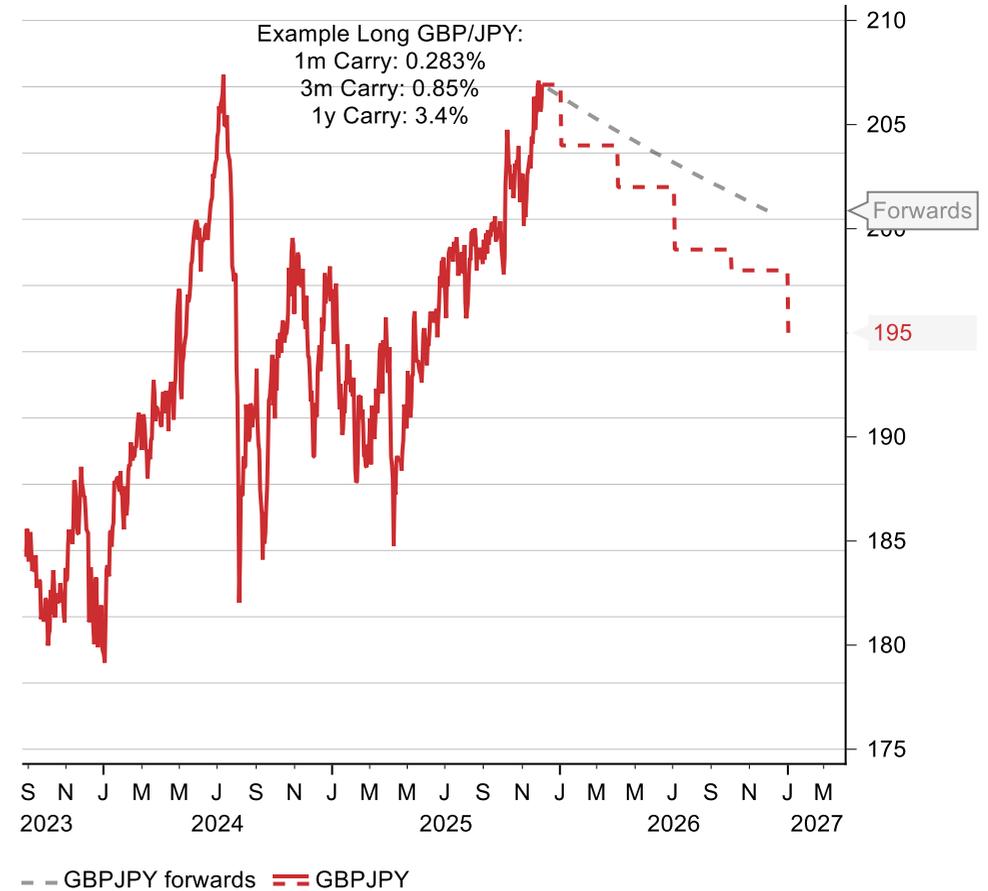
GBP/USD forecasts

Mizuho GBP forecasts



GBP/JPY forecasts

Mizuho GBP/JPY forecasts



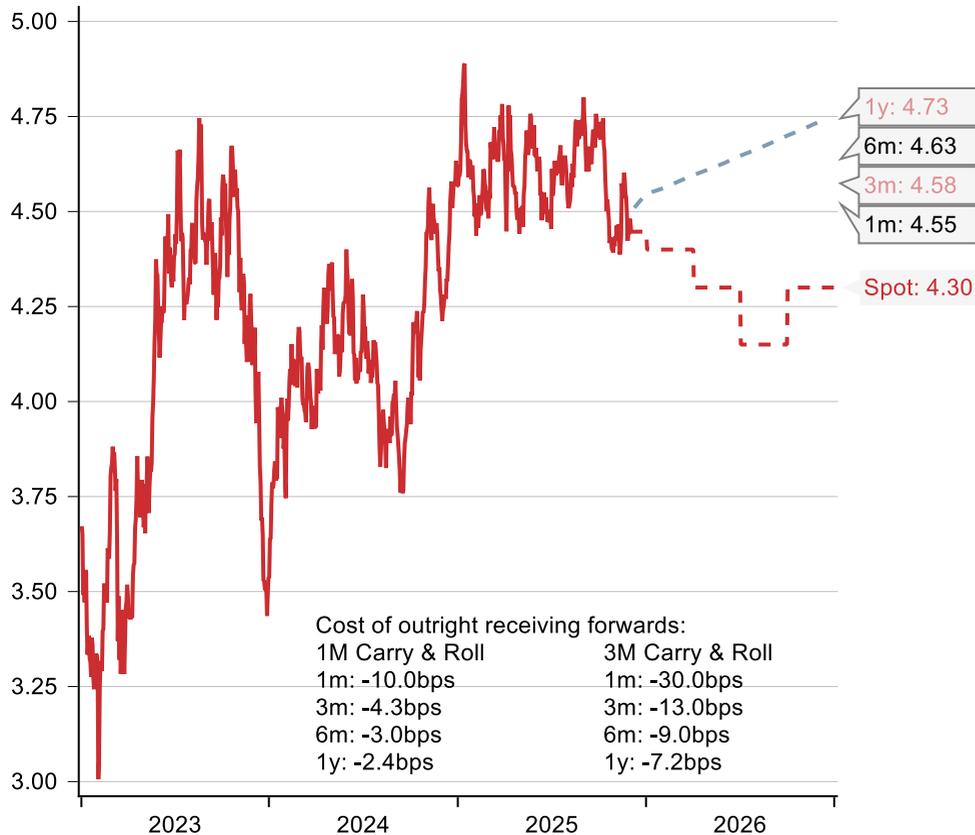


GBP Rates - Duration

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

10yr Gilts

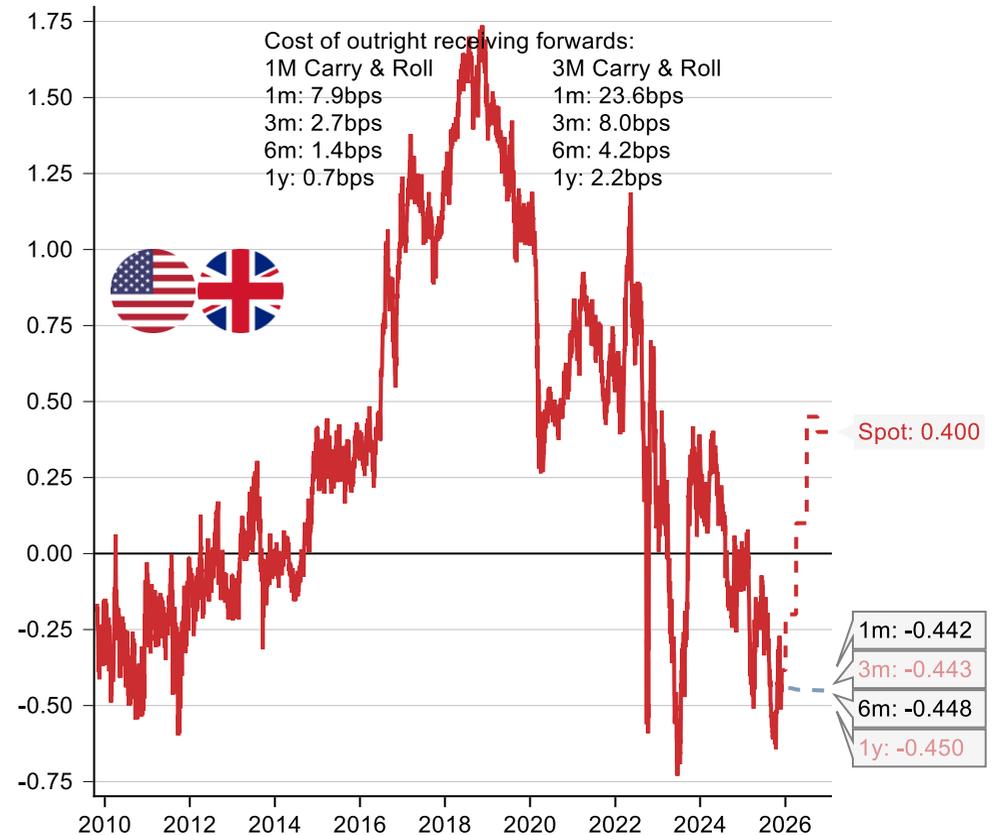
UK 10s vs forwards



-- 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



— BOE Policy

UK 2s10s vs forwards

Gilts 2s10s vs forwards

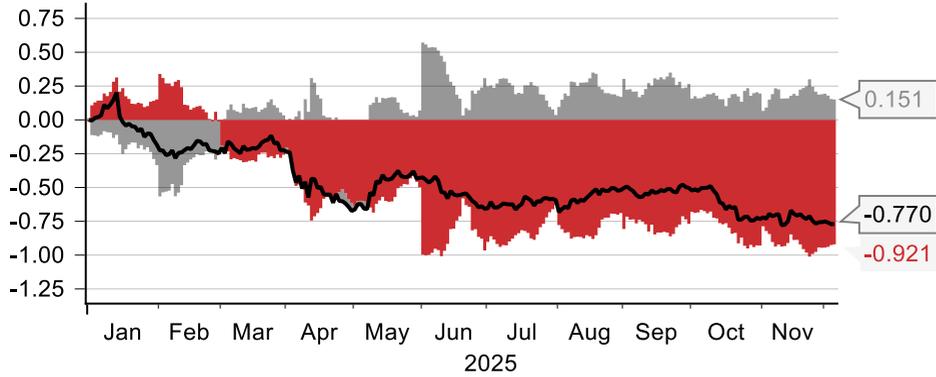




GBP rates moves broken down

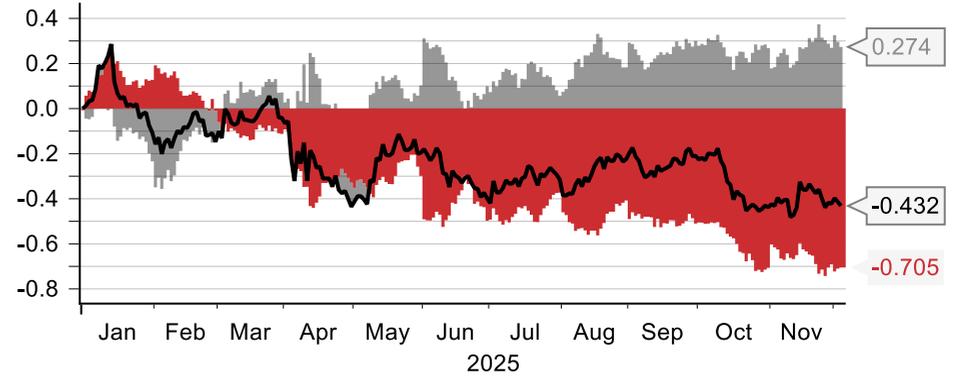
- The disinflation push has been much stronger in the UK
- Real rates are driving the surge in long end yields, with markets demanding an increasing term premia

Changes in UK 2yr split into real vs inflation expectations



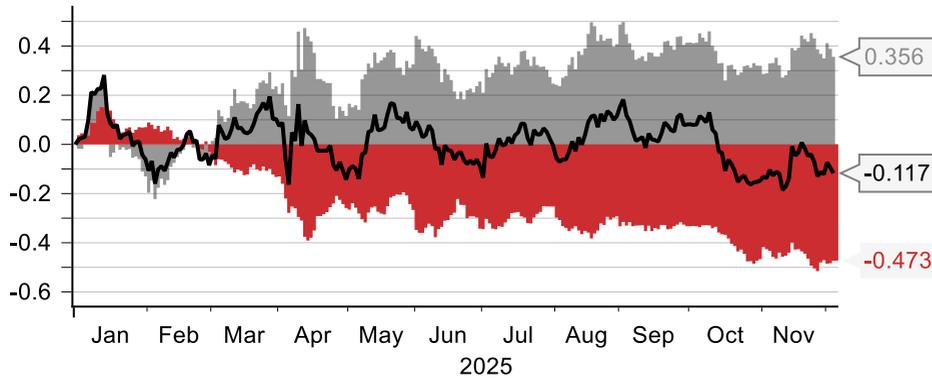
— UK Nominal 2yr moves (SONIA) ■ UK Real yield ■ UK Inflation 2yr

Changes in UK 5yr split into real vs inflation expectations



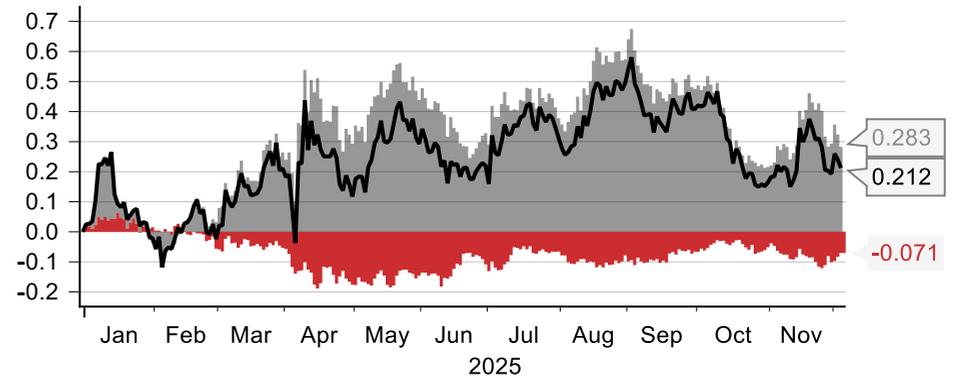
— UK Nominal 5yr moves ■ UK Real yield ■ UK Inflation 5yr

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



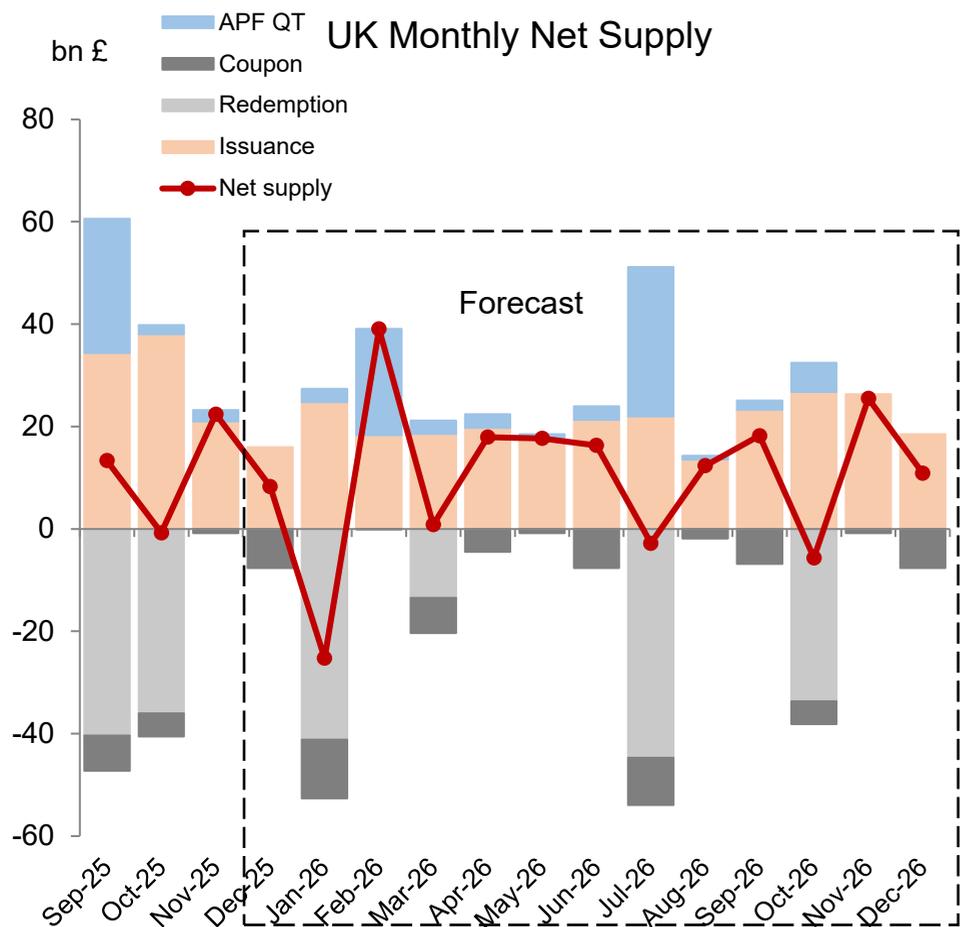
— UK Nominal 30yr moves (SONIA) ■ UK Real yield ■ UK Inflation 30yr



Gilt 2026 Supply Summary: Decreasing WAM

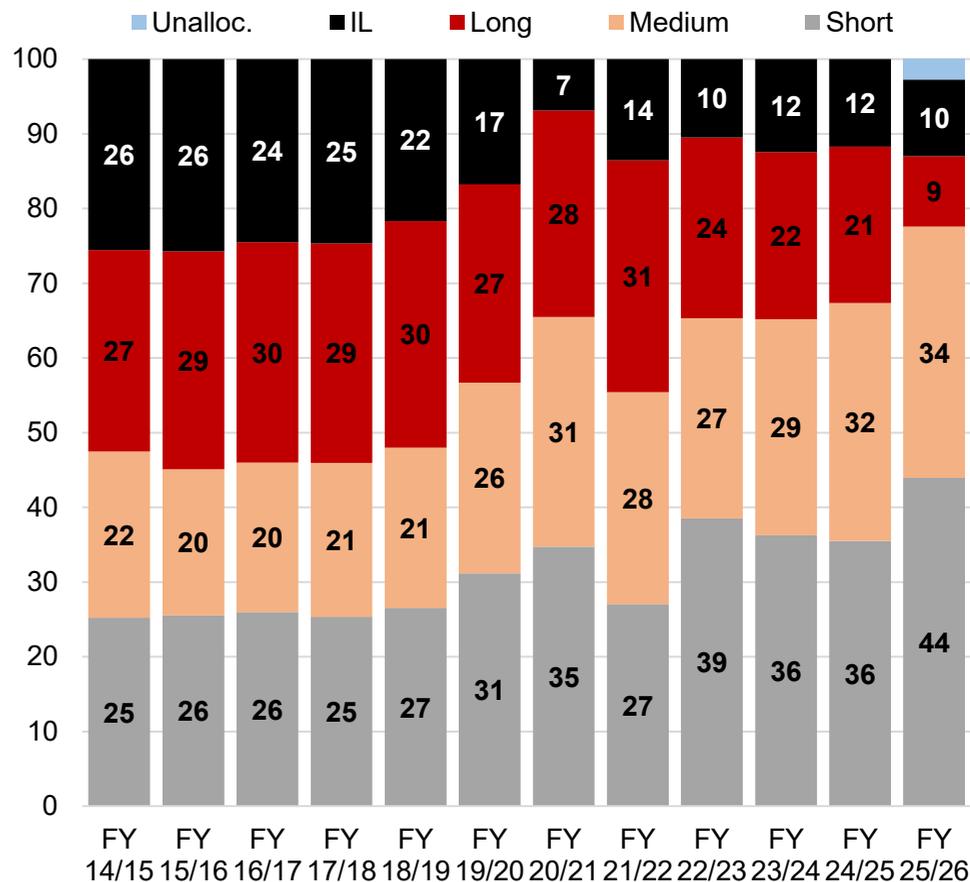
- CGNCR to decrease from £149.2bn to £133.3bn, together with less redemptions = decrease in issuance from £303.7bn in FY25-26 to around **£245-250bn in FY26-27**.
- DMO to continue to shift away from long-end issuance, with shorts and mediums bearing the brunt.

2026 Gilt Net Supply – Monthly Breakdown

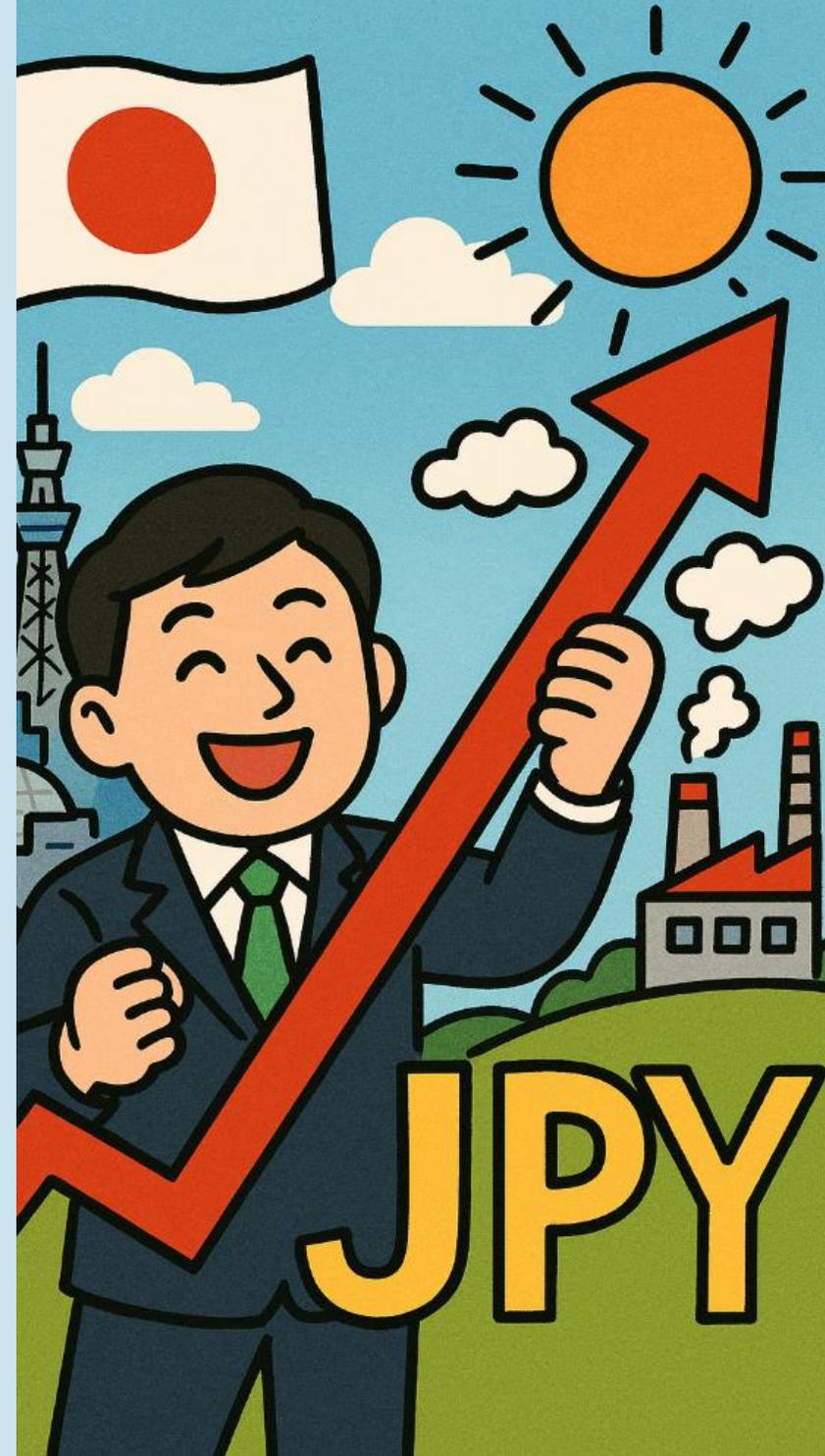


The strategy to decrease WAM is clear

Gilt issuance distribution per buckets (%)



2026 Japan Outlook



Economic and Monetary policy outlook for Japan in 2026

JPY: JGB underperformance amid fiscal expansion and Global growth uptick, the JPY to recover lost ground but at a mild pace

- **The Data:** Growth has recently slowed after a healthy recovery, but surveys have held up near historical highs for Services and accelerated for manufacturing. The **near-term risks lie to the downside for services if Japan-China tensions remain** and tourism takes a hit but inflation has been stubbornly stronger than expected in Japan and recent JPY weakness will add to the BoJ's problems. The labour market remains historically tight, with conditions comparable only to the 1980s bubble era, and another strong wage round in 2026 could reinforce BoJ confidence to normalize policy.
- **The BoJ:** The Bank has been hesitant to hike with tariff and domestic political uncertainty, **but the data justifies a hike in Dec or Jan, then July and the potential for more down the line** if Japan has truly escaped the deflation trap (we suspect it has). Next year brings historically high levels of Global fiscal and monetary policy stimulus, it will be hard for the BoJ to hold off from rate hikes if USD/JPY continues to test 160, it's just a matter of time in our view. But ultimately the BoJ is attempting to avoid tightening policy too quickly and disrupting a nascent recovery in inflation expectations in Japan after the 2006/07 experience.
- **Rates: Bearish pressure should persist in JGBs (10yr to 2.4%)** as hawkish BoJ communication drives repricing, coming fiscal stimulus is factored in and domestic investors remain absent in the 10yr. The super long end remains shielded due to on further super long-term issuance cuts from the MoF. **Outperformance of long-term JGBs vs swaps to continue thanks to reduced issuance and ALM demand.**
- **FX:** With the BoJ underdelivering in 2025 it has led to pronounced JPY weakness compared to expectations. We expect BoJ hikes will stem the JPY weakness and lead to a lower USD/JPY in 2026 but would avoid trading that view until Q2 of 2026 when the decisions by the new Fed chair become clear and the risk of an election in Japan subsides. We expect **JPY strength to 147 by end 2026**. But there are three scenarios in the next few months:
 - (a) If fiscal expansion persists and BOJ tightening is politically constrained, downside risks remain acute—**160 or even 170 cannot be dismissed**. (b) Conversely, two modest hikes in January and July, lifting policy rates to 1.0%, could stabilize **USD/JPY 150 level**. (c) A stronger scenario—clear growth, rising wages, and rates approaching 2.0%—would mark a turning point, **potentially bringing sub-145 into view**. Repatriation of overseas assets, if it occurs, would amplify appreciation.
- **Politics:** PM Takaichi's cabinet rating approvals have shot decisively higher compared to the outgoing Ishiba. Most political strategists know a leader's best time to call an election is near the beginning of their premiership. But calling an election in Japan in winter would be unlikely, it's why we expect **an election becomes more of a risk for Spring 26**. Then we need to look at the impact on monetary policy, FX and Geopolitics. Will Takaichi adopt a platform willing to tolerate BoJ rate hikes next year? Will the FM Katayama intervene in the FX market and sell USD/JPY at 158-162? And how long will the current fallout between Japan and China over the Taiwan issue last?

Event Risks ahead (JP)

Timeline of risk events:

December 2025

- **Early Dec:** FY25 supplementary budget to be submitted
- **Early Dec:** Various wage hike **targets** set by Workers' Unions
- **15 Dec:** Tankan survey
- **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
- **Late Dec:** Various wage hike **demands** set by Workers' Unions

January 2026:

- **Early Jan:** New Year's meetings at three business organizations (announce of stance on wage hikes)
- **Early/Mid Jan:** BOJ Branch manager meeting and Regional Economic Report
- **Mid/Late Jan:** Keidanren publishes policy paper setting out basic stance on spring wage negotiations

Rest of 2026:

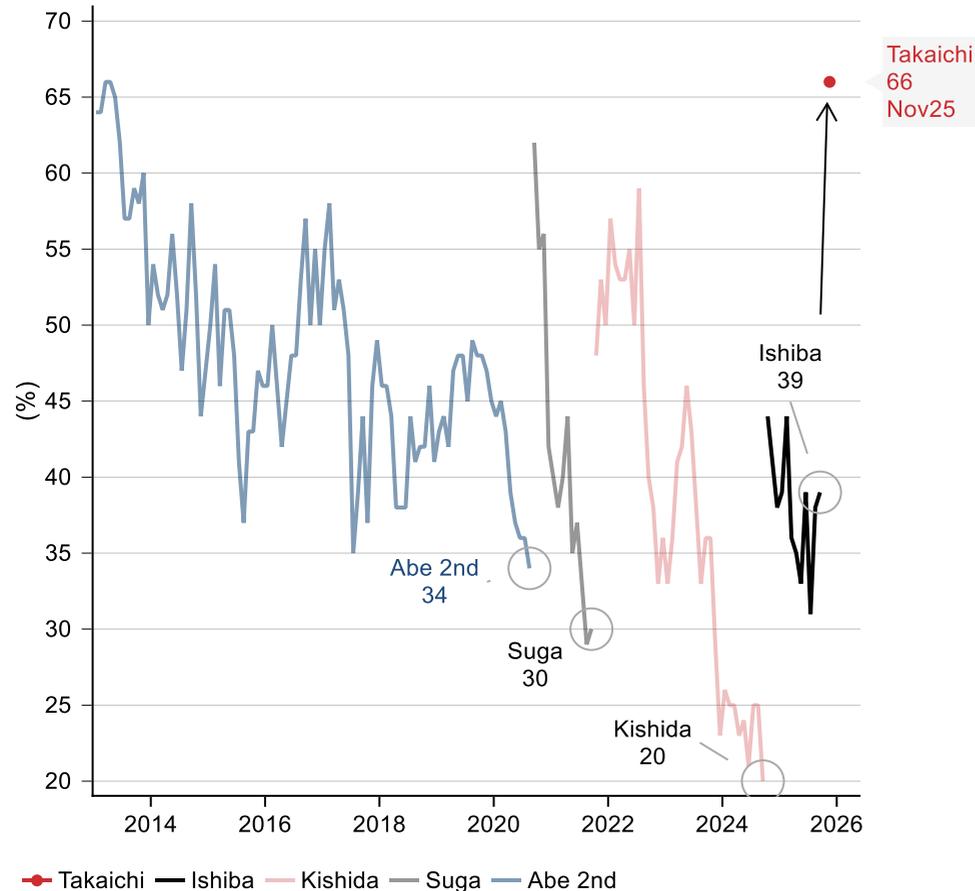
- **23 Jan:** BoJ monetary policy meeting
- **Q1:** ¥21.3 trillion stimulus package (energy subsidies, childcare, rural revitalization)
- **Mar:** Wage negotiation settlements deadline
- **Apr:** Fiscal 2026 Budget
- **11-13 May:** Japan-Texas Economic Summit
- **18-20 Sep:** Geopolitical Conference (Kyoto)
- **2026:** China-Taiwan tensions
- **2026:** US-Japan Trade Deal negotiations

Could Japan have another election in 2026?

- With much stronger approval ratings for Takaichi's cabinet it's quite likely an election is called in the Spring
- Fiscal stimulus has already been achieved so what else could Takaichi propose?

Japan's cabinet approval ratings

Japan, Cabinet Approval Rating



“Responsible but proactive fiscal policy” – So what next?

The 2025 fiscal package includes stimulus measures paid for from the general account to the tune of ¥21.3trn (vs ¥14.8trn in FY2024). Some fiscal sustainability has been considered with new JGB issuance likely to be lower in FY25 (40.7trn) than in FY24 (42.1trn). The package had three aims:

1. Protect livelihoods and curb rising prices (up to 0.8% lower core CPI?) via gasoline tax cuts and support for electricity/gas charges.
2. Build a resilient economy through crisis management and growth investment
3. Enhance Japan's defense and diplomatic strength

The next fiscal package in 2026 could shift **from inflation combating measures to growth-oriented measures**. Emphasis on corporate capex rather than household consumption.

For markets **an election being called would lead to BoJ uncertainty around the election date and perhaps delay the idea of a follow up hike in Summer 2026.**

Key questions:

1. Is JPY a political liability for Takaichi? Or does the NKY rally offset?
2. At what level does Japan intervene in the FX market? (158-162?)
3. Does Takaichi approve of BoJ rate hikes in January? Or will reflationists win the argument?
4. Is there any backstop for JGBs with a reflationist agenda?
5. Will Japan-China tensions disrupt what has been a great period of services and tourism growth?

What was in the fiscal package?

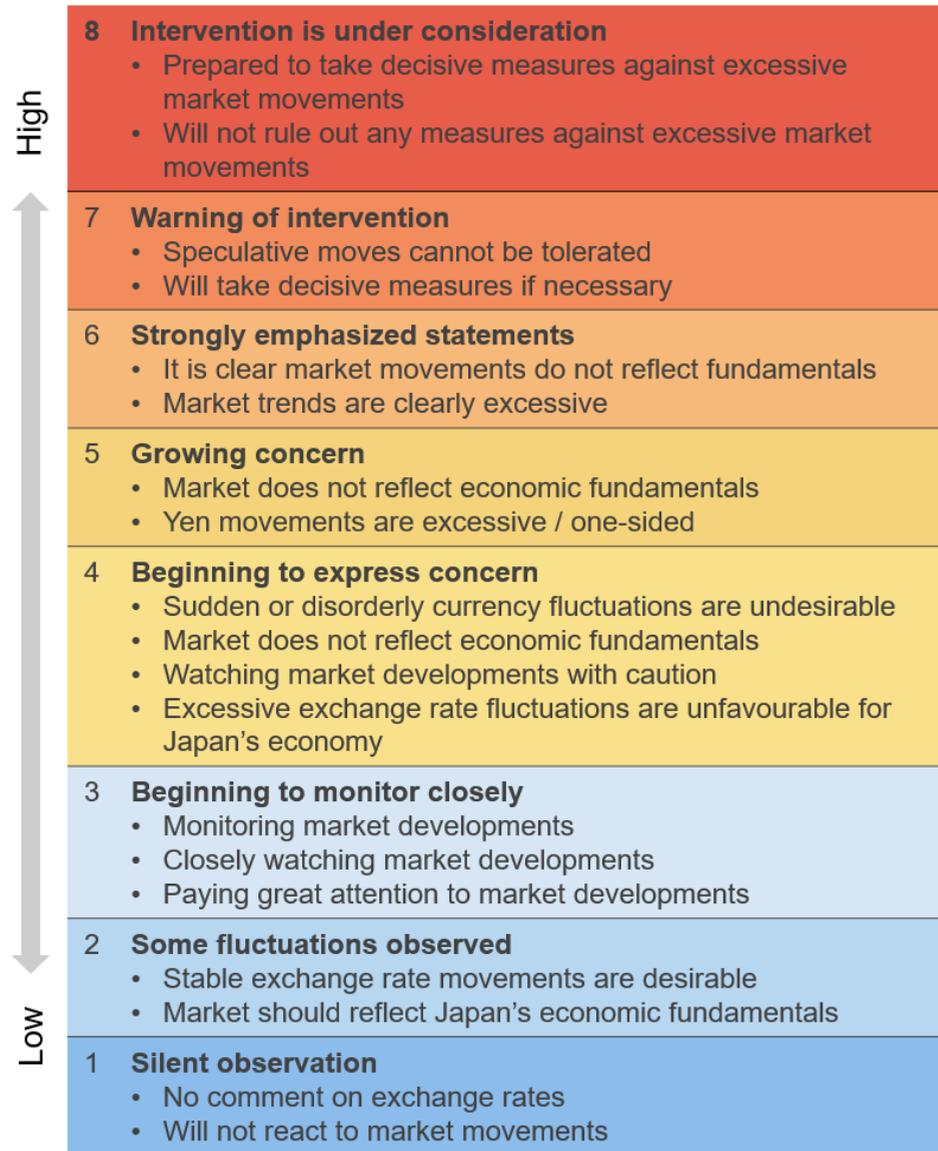
JPY 21,3 trillion Stimulus Package

Pillar	Main Contents
 <p>(a) Safeguarding Livelihoods and Curbing inflation JPY 11,7 t</p>	<ul style="list-style-type: none"> • Tax cuts raising income threshold amount: JPY 1.2 trillion • Abolishing the provisionall gasoline tax: JPY 1.5 trillion • Electricity and gas subsidies: about JPY 7,000 per household in early 2026 • Expanded local grants for food price relief: uniform JPY 20.000 payment per child under 18
<p>(b) Crisis Management and Growth Investment JPY 7,2 t</p>	<ul style="list-style-type: none"> • 10-year shipbuilding fund • Semiconductor and AI development • Space projects • Healthcare support
<p>(c) Defense and Diplomatic Enhancements JPY 1,7 trillion</p>	<ul style="list-style-type: none"> • Defense improvement • Diplomatic measures
<p>Separate Contingency Reserves JPY 0,7 trillion</p>	<ul style="list-style-type: none"> • Natural disasters • Bear attack response 
<p>Total JPY 21,3 trillion</p>	

¥21.3 trillion package (3.6%GDP), the largest after Covid out-break, with private investment, aiming to lift GDP by **1.4%**, underscoring a decisive pivot toward growth.

Three-Pillar Strategy Targets Inflation, Investment, Security

FX intervention likelihood



Finance Minister Katayama's remarks

On Nov 21
The government would "take appropriate action as needed"

FX intervention is "naturally conceivable."

On Nov 18
Recent moves "very one-sided and rapid."
Stressed vigilance against "excessive volatility or disorderly moves"

On Nov 12
"Recent movements have been one-sided and rapid" and acknowledged that "negative aspects are becoming more pronounced," citing risks such as rising import costs and inflation.

On Nov 4
FX market had shown "one-sided and rapid movements," adding that "our stance of closely monitoring the situation with a high sense of urgency remains unchanged."

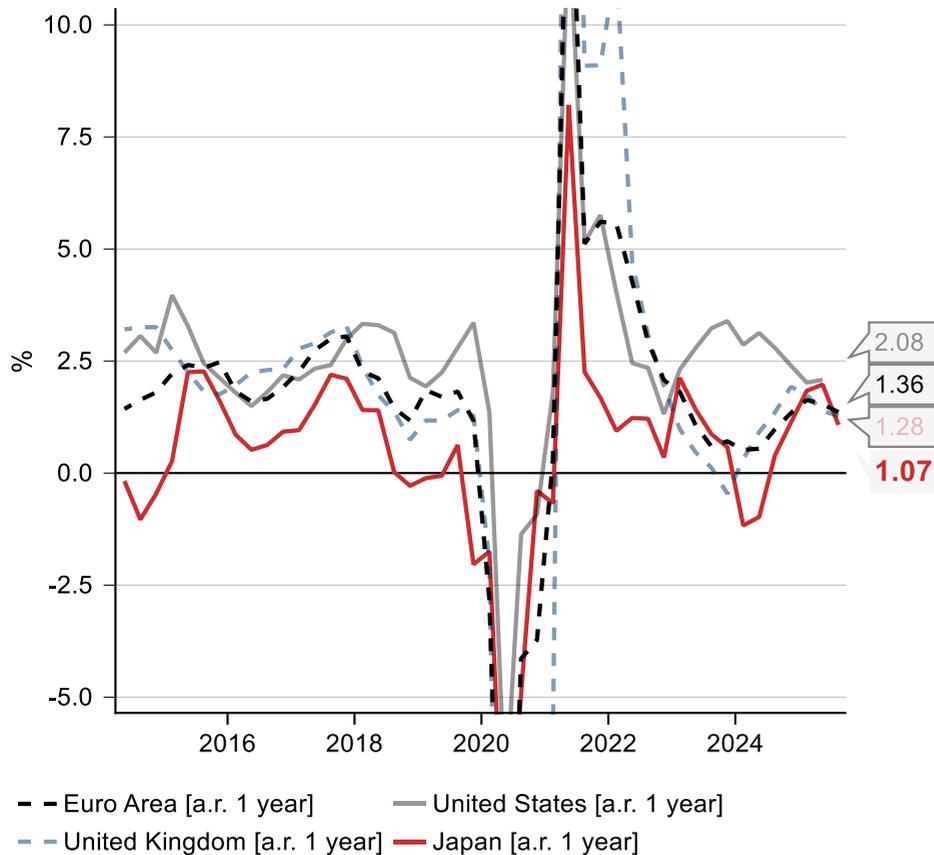
(Source: Mizuho)

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

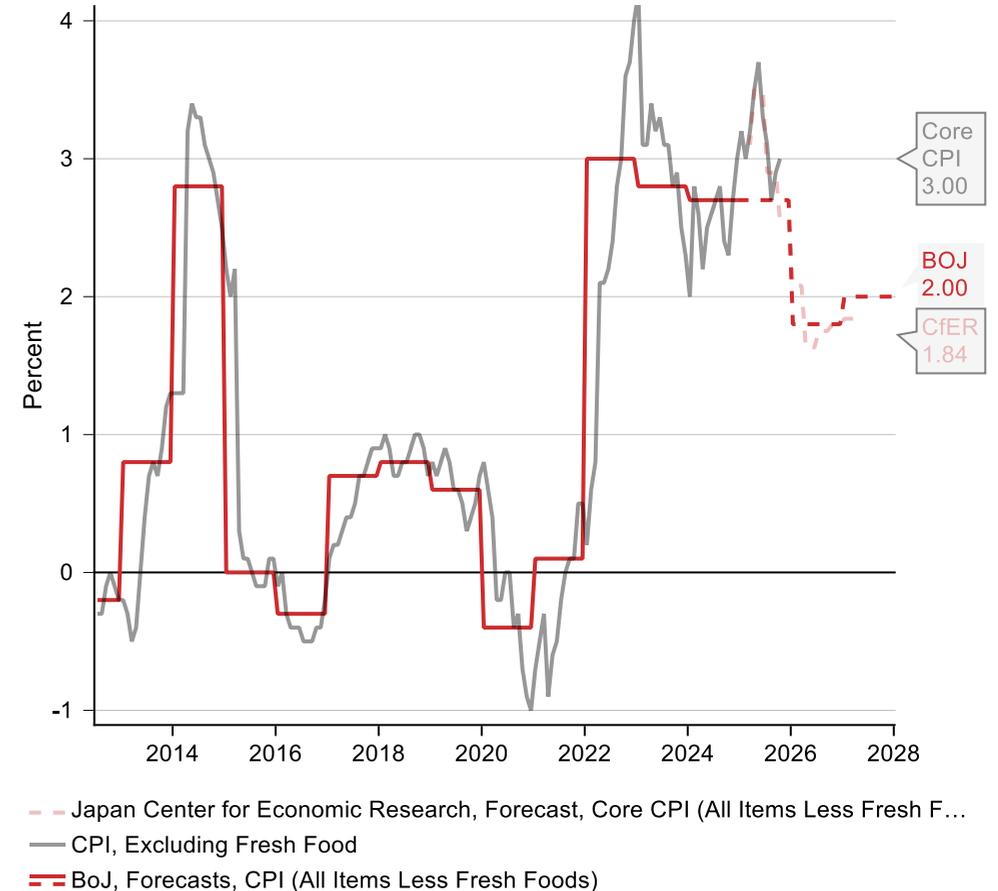
Healthier growth than the start of the year

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)

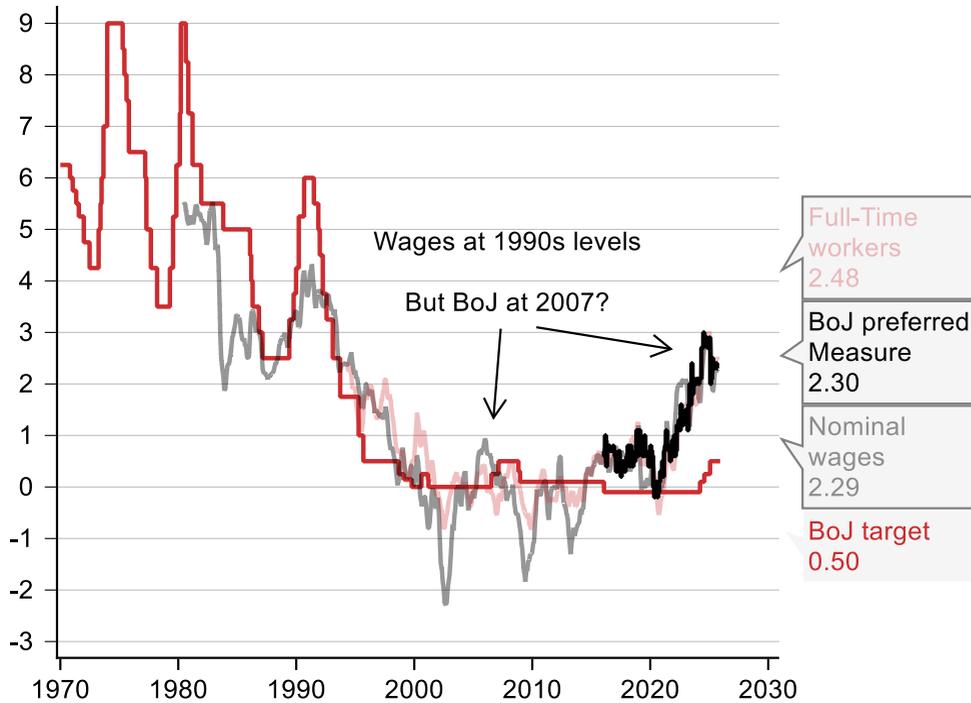


JPY Wages and Employment conditions

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

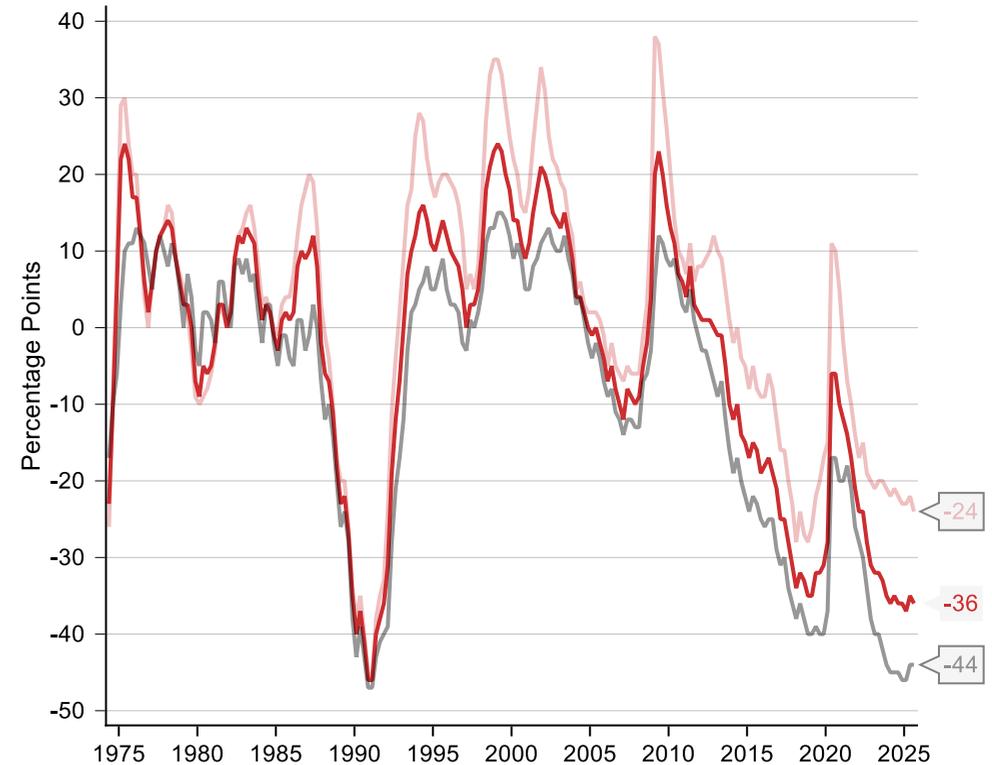
Japan Nominal Wages vs BOJ Policy



- Common Office, Full-Time Workers, scheduled cash earnings
- Contractual Cash Earnings, Scheduled, Full-Time Worker [a.r. 1 year, m.a. ...]
- 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



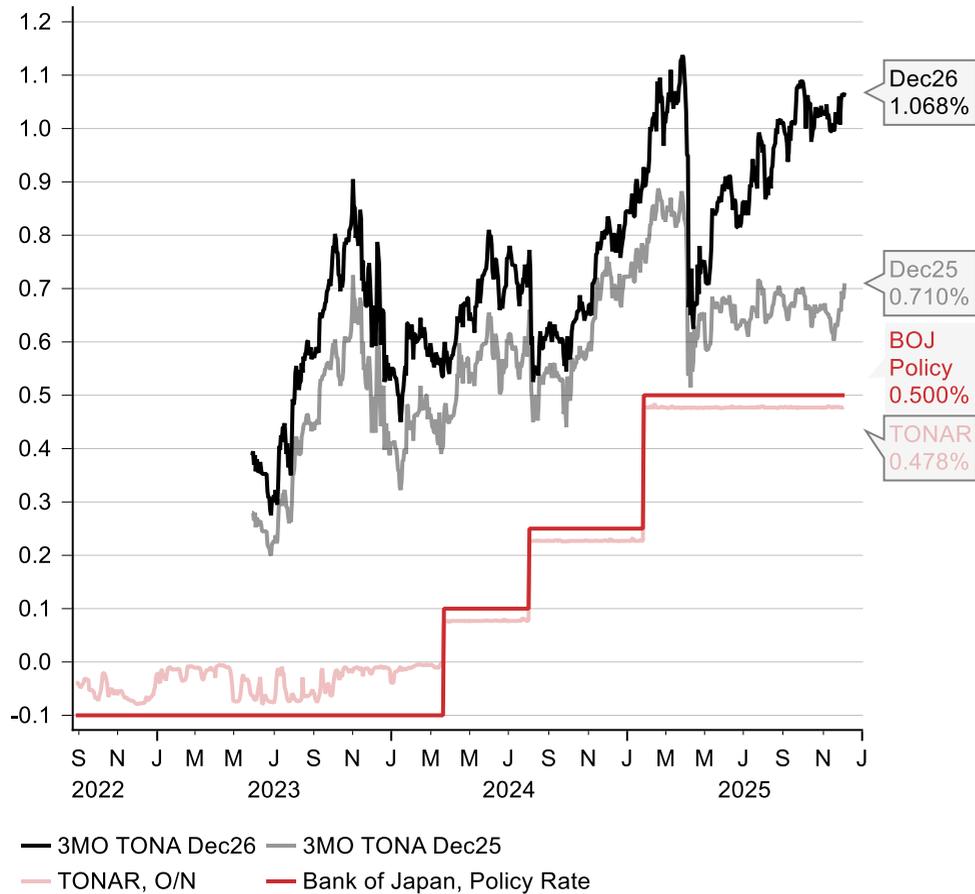
- Manufacturing, Diffusion Index, Actual Result
- Nonmanufacturing, Diffusion Index, Actual Result
- All Industries, Diffusion Index, Actual Result

JPY STIRT

- BOJ TONAR pricing
- BoJ pricing vs the neutral rate assumptions from the BoJ Models

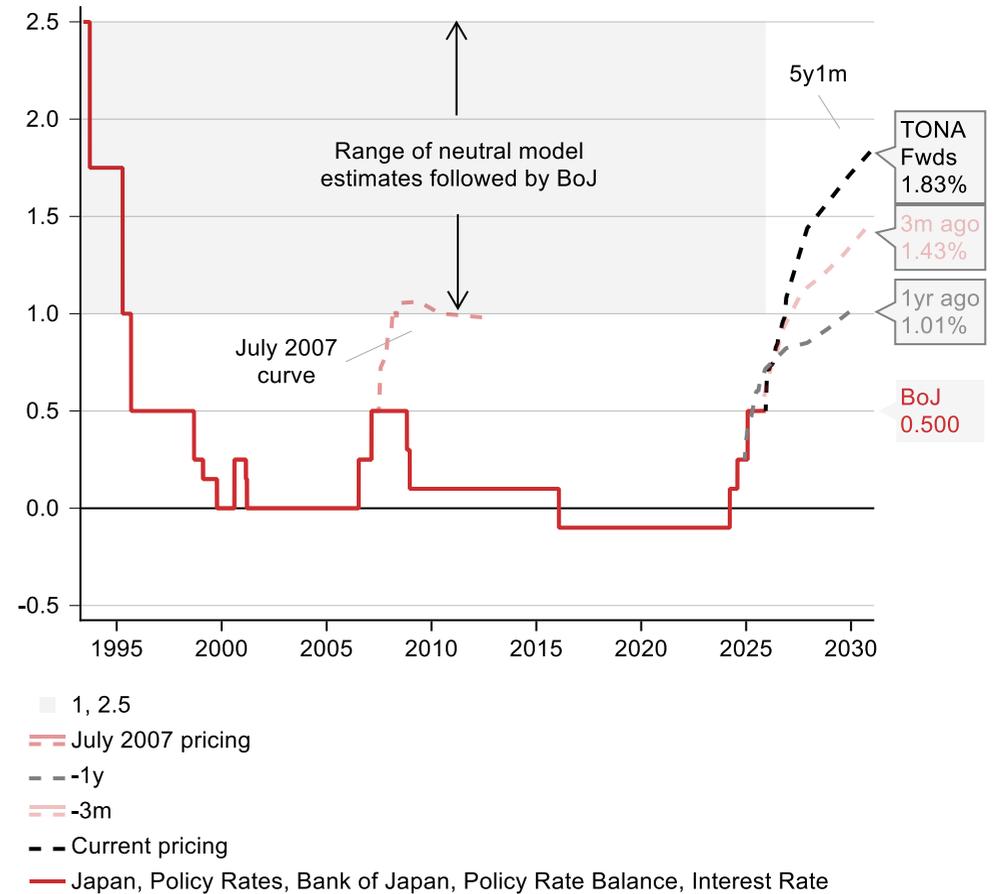
What's priced for the BOJ?

BOJ policy vs TONA futures



Market Pricing of BOJ in 1yr and 2yr

BoJ pricing vs "neutral" estimates



JPY FX

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

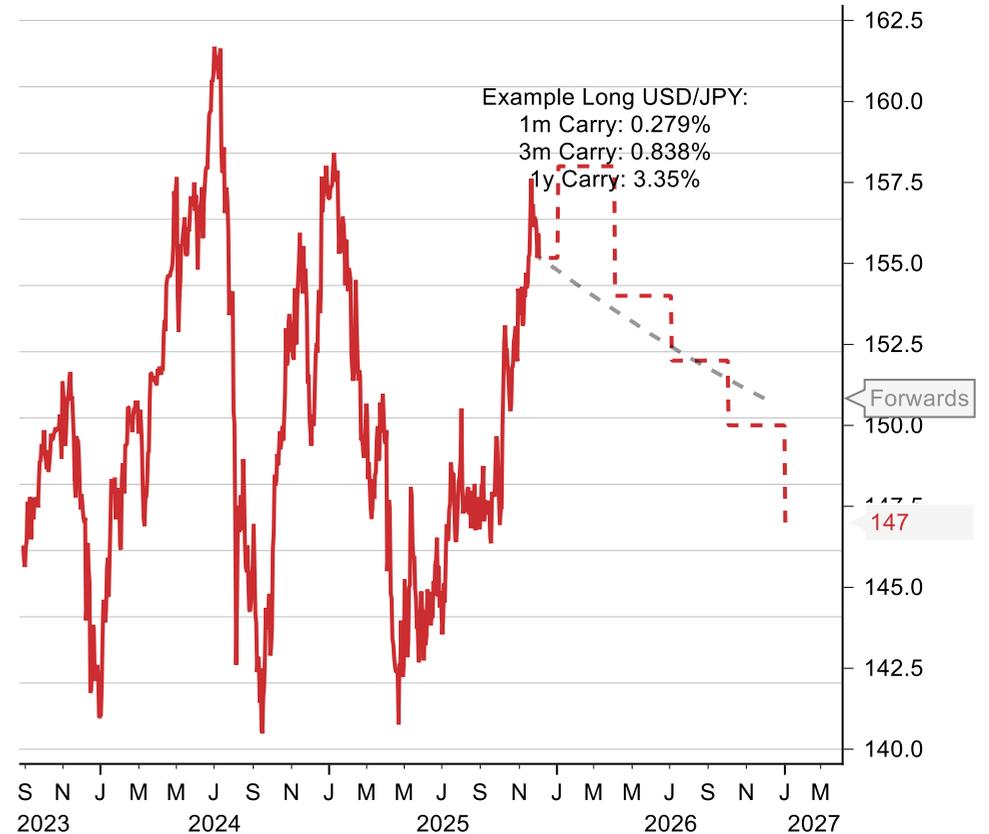
USDJPY short term fair value

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



USD/JPY forecasts

Mizuho USD/JPY forecasts

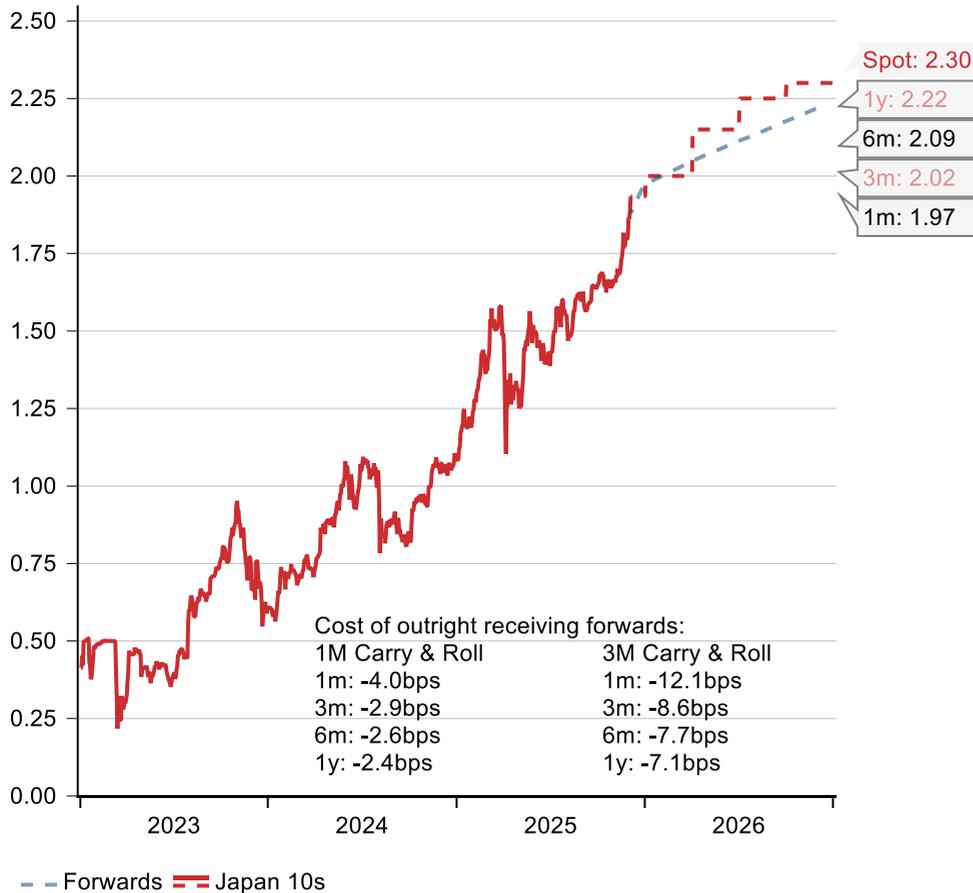


JPY Rates - Duration

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

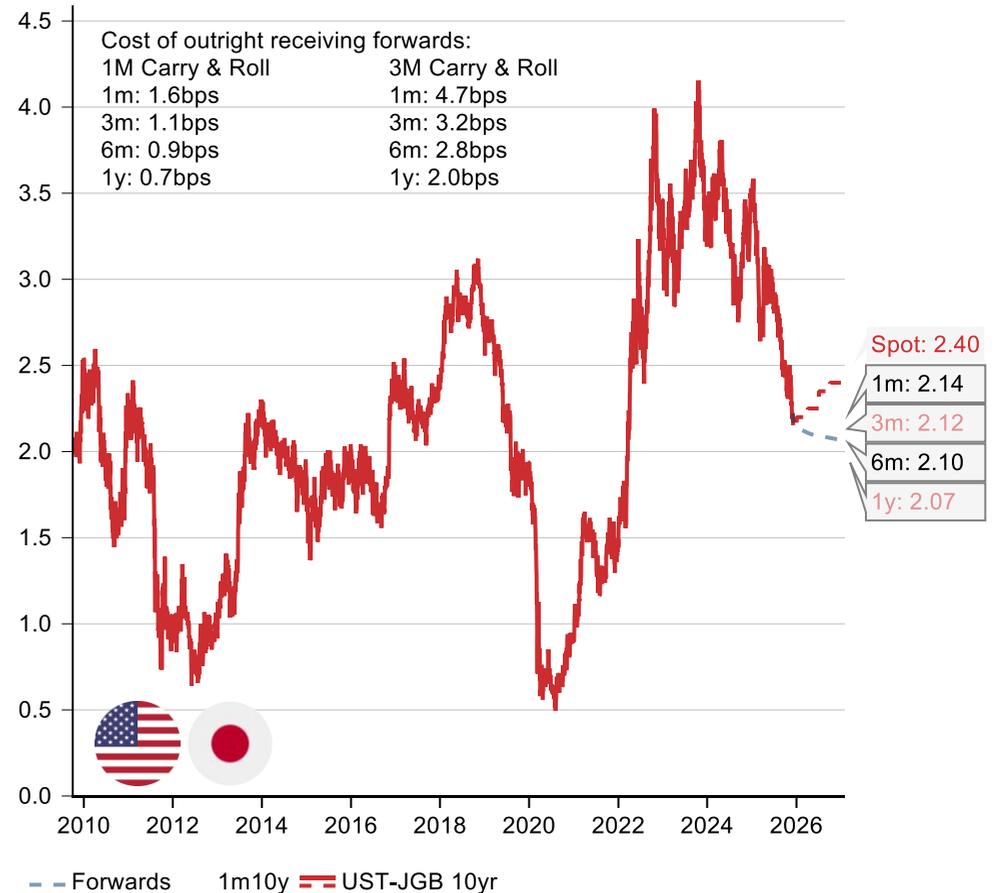
10yr JGB

Japan 10s vs forwards



UST-JGB 10yr spread

UST-JGB 10yr spread vs forwards and forecasts

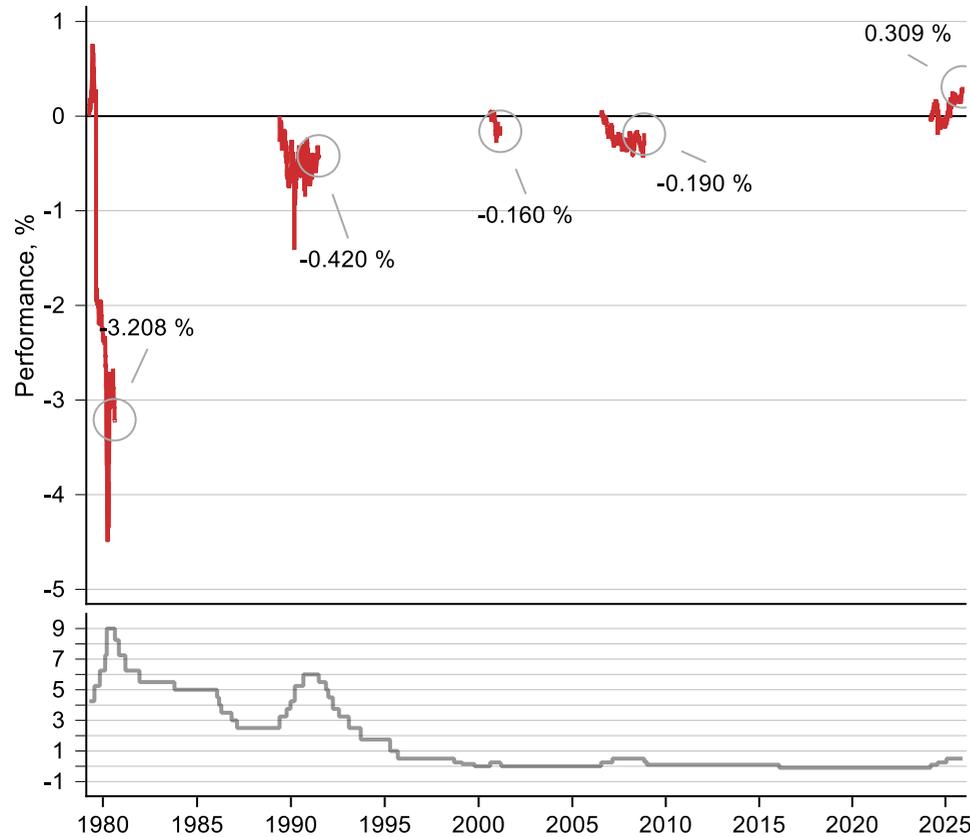


JPY Rates - Curve

1. Japan 2s10s in hiking cycles – This cycle is very different with a steeper curve thus far in a hiking cycle.
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



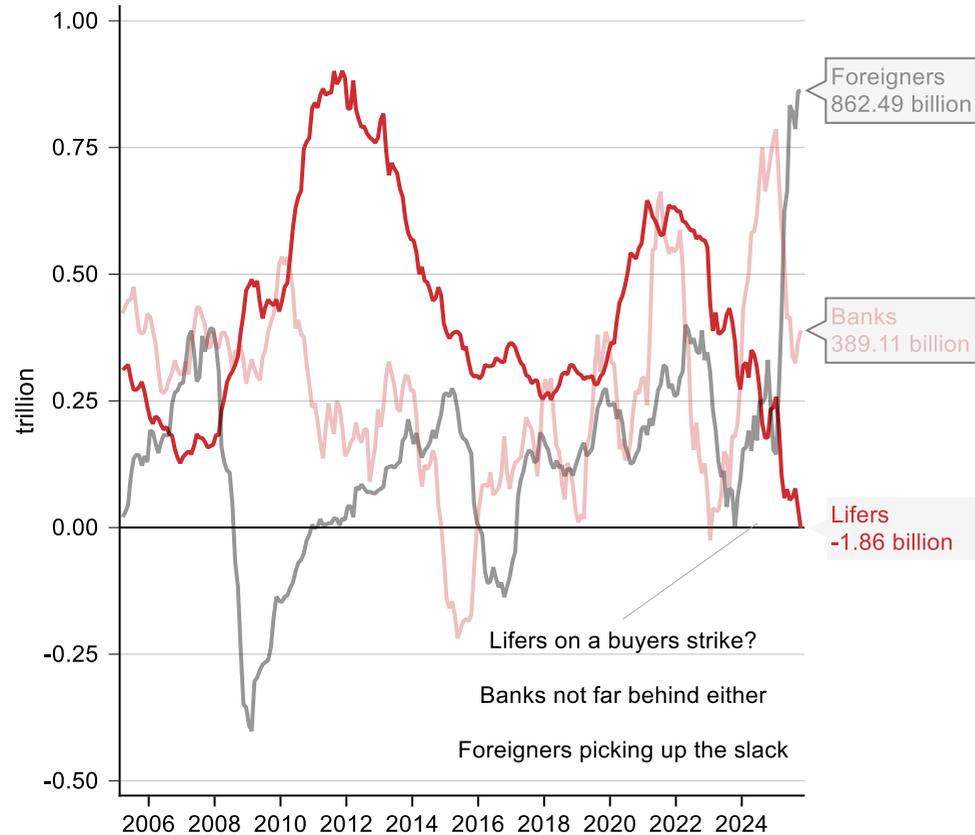
— Forwards — Japan 2s10s

JPY Rates

- Super long end JGBs continue to experience a domestic buyers' strike due to political volatility.
- Trust banks were already tactically buying super long end in August – more to follow? Lifers need to rebuild duration.

JSDA data clearly displays the domestic buyers' strike

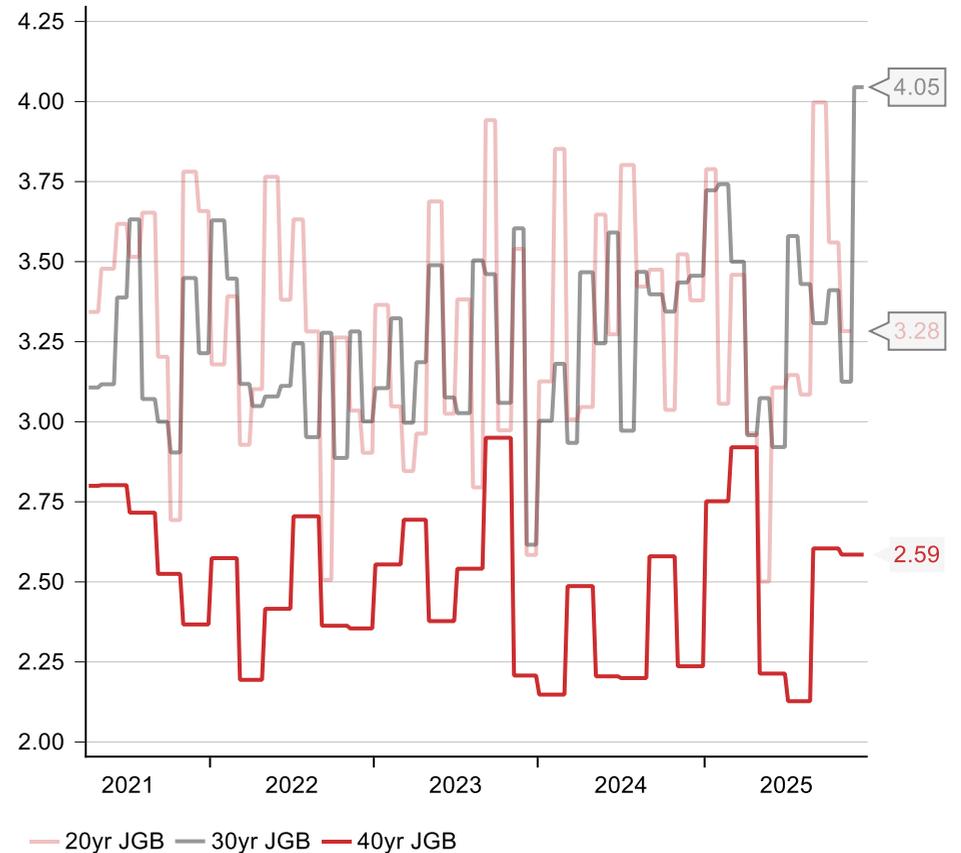
Net flows in to super long end JGBs (>10yr, JSDA, 1yr moving average)



— Banks (City, Long term credit, Regional, Trust) — Foreigners — Lifers

Super long end JGB auctions have been doing better lately

JGB Bid-to-cover ratios

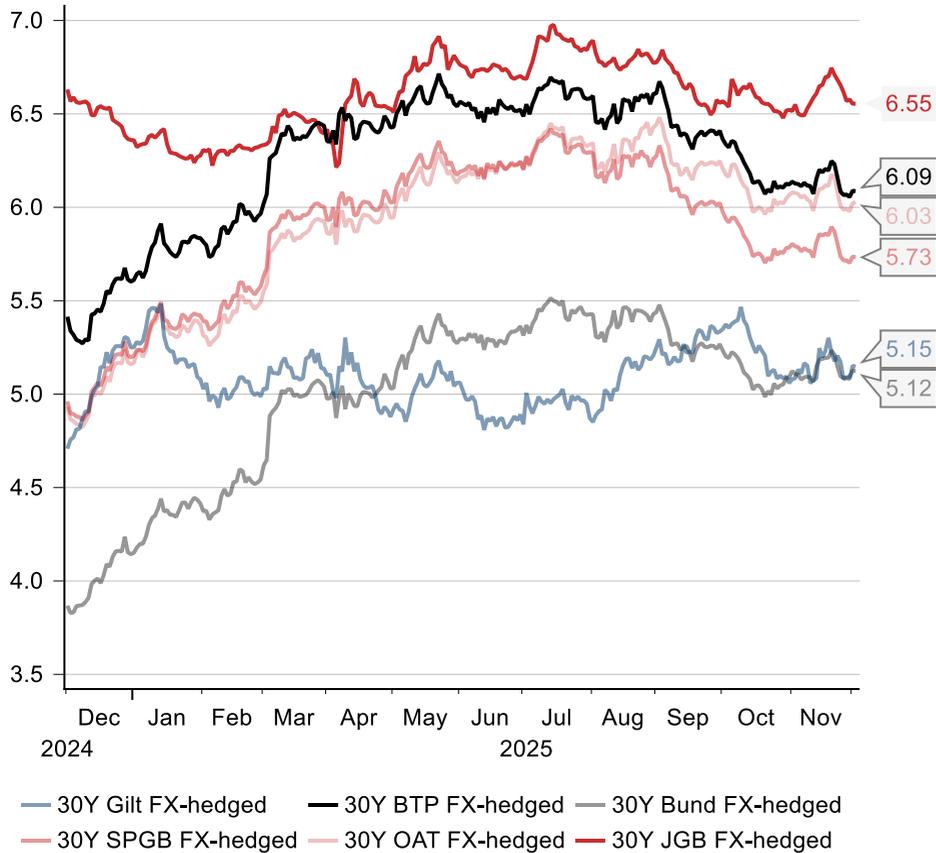


JPY Rates

- What about foreigners? FX-hedged super long end yields still have show a yield pick-up...
- ... but 30Y JGB ASWs are not as good-looking due to the richening of JGBs vs swaps and the tightening of USDJPY XCCY basis spreads → Wait for a dip in both JPY swap spreads and XCCY basis to buy!

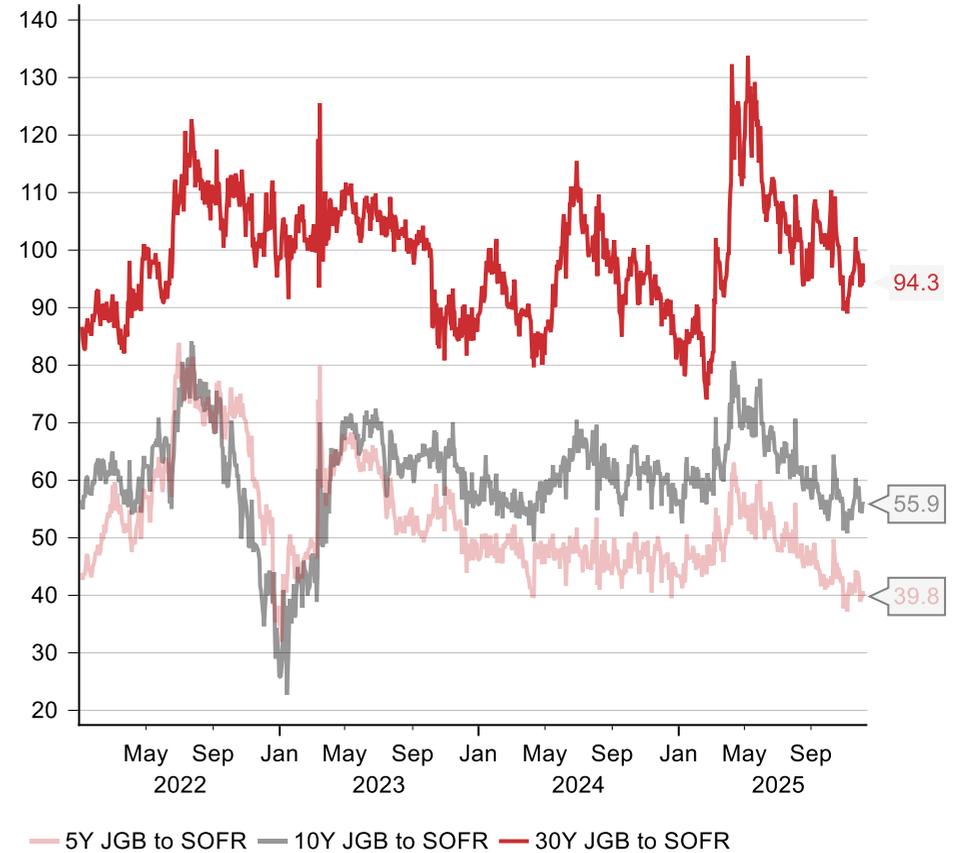
FX-hedged JGBs

30Y DM rates FX-hedged to USD (%)



Return of JGB ASWs to SOFR is not as attractive as in May

JGB ASWs to SOFR (bp)



SSA Spreads



SSA Spreads Summary view – 2026: Can the richening continue?

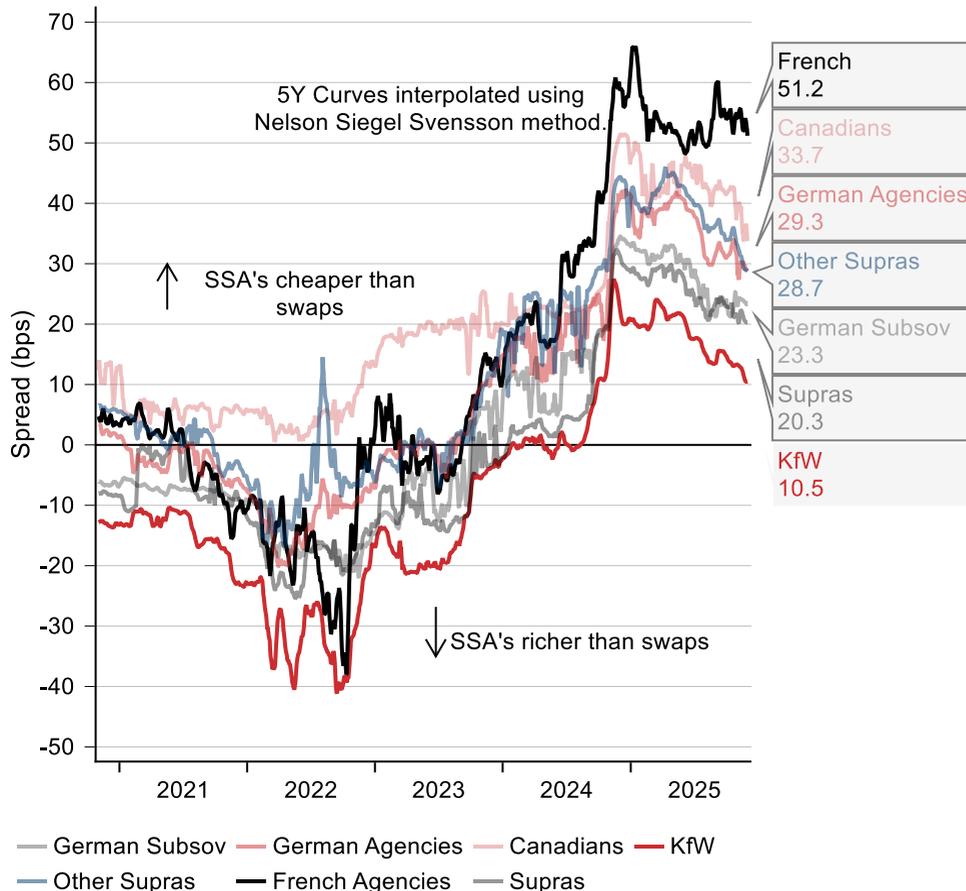
-  • **2025 has been a year of “timid” tightening of EUR SSA ASWs.** The driving force behind the tightening seems to be related to the **resilience of risk assets, particularly EUR credit markets**, where primary issuance has been well absorbed. **It has been an active year in terms of EUR SSA supply and political risk**, two factors that have prevented any strong richening in EUR SSA ASWs. These spreads are still trading wider when we compare it to pre-2024 ranges. **French agencies stand out as the underperformers.** This is no surprise given the political risk premia priced in French assets – **a theme we expect to continue in 2026.** The story of EUR SSAs sounds slightly different when looking at them vs Bunds. This is another façade of the German fiscal bazooka that has now made EUR SSAs look rich vs Bunds.
- **Looking into 2026**, we think the rangebound trade in EUR swap spreads (swap - bond) is likely to break to the downside due to the German fiscal bazooka story and elevated supply. This, together with a lack of major ECB cuts, **should add bearish pressure to EUR SSA names (wider ASWs), which in our view are still trading rich.** EUR SSA issuance remains attractive, which may add another source of widening pressure, especially around January.
-  • 2025 was a year where **investors were active in locking in higher yields.** It’s a year that has also seen a **strong compression of higher-beta USD SSAs**, which is in line with the moves we have seen in USD credit markets (IG/HY spread compression). The usual relationship between USD swap spreads and USD SSAs hasn’t really played out in recent months and our fair-value metrics suggest that USD SSAs are starting to look rich.
- **Looking into 2026**, our view is for USD swap spreads to continue to move wider as banking deregulation is likely to lead to increased demand for Treasuries, which may **come to bite USD SSAs** as well. **USD refunding pressure will remain elevated in 2026**, with some names prone to more issuance like non-EU Supras, Canadians, and EU SSAs. Japanese USD SSAs also have another year of large redemptions (35% of the amt. outstanding). **The higher-beta compression relies heavily on risk sentiment** and, given the richness we are seeing, we think Koreans remain sensitive to any wobbles would they occur.

€ SSA spreads to EUR Swap/ German Gov (5Y)

- EUR swap spreads have been trading in a range this year, allowing EUR SSAs spreads to tighten into year-end, but we are not so sure this will continue in 2026. OAT-Bund spreads have had a volatile year but ended up wider – we see this as structural rather than just idiosyncratic. French agencies therefore have room to further widen vs German Bund (and names such as KfW).

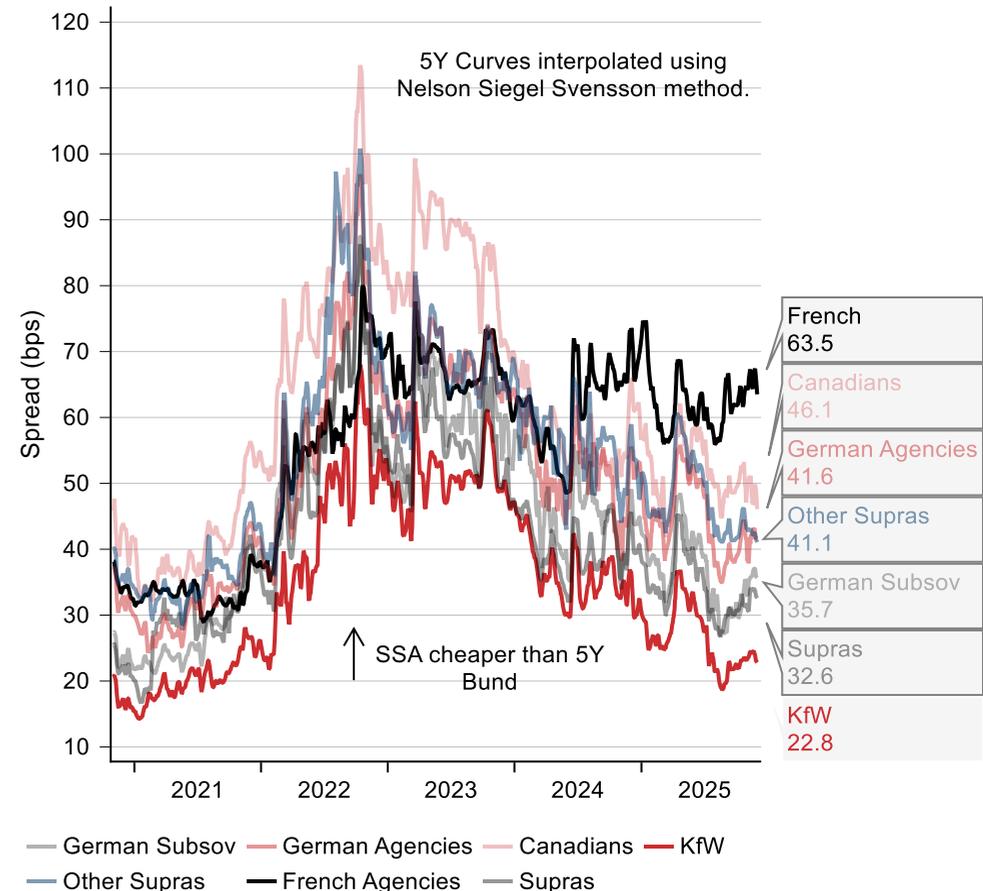
€ SSA spreads to EUR Swap (5Y), 7-day moving average

€ SSA spreads to EUR Swap (5Y), 7-day moving average



€ SSA spreads to German 5Y Bond, 7-day moving average

€ SSA spreads to German 5Y Bond, 7-day moving average

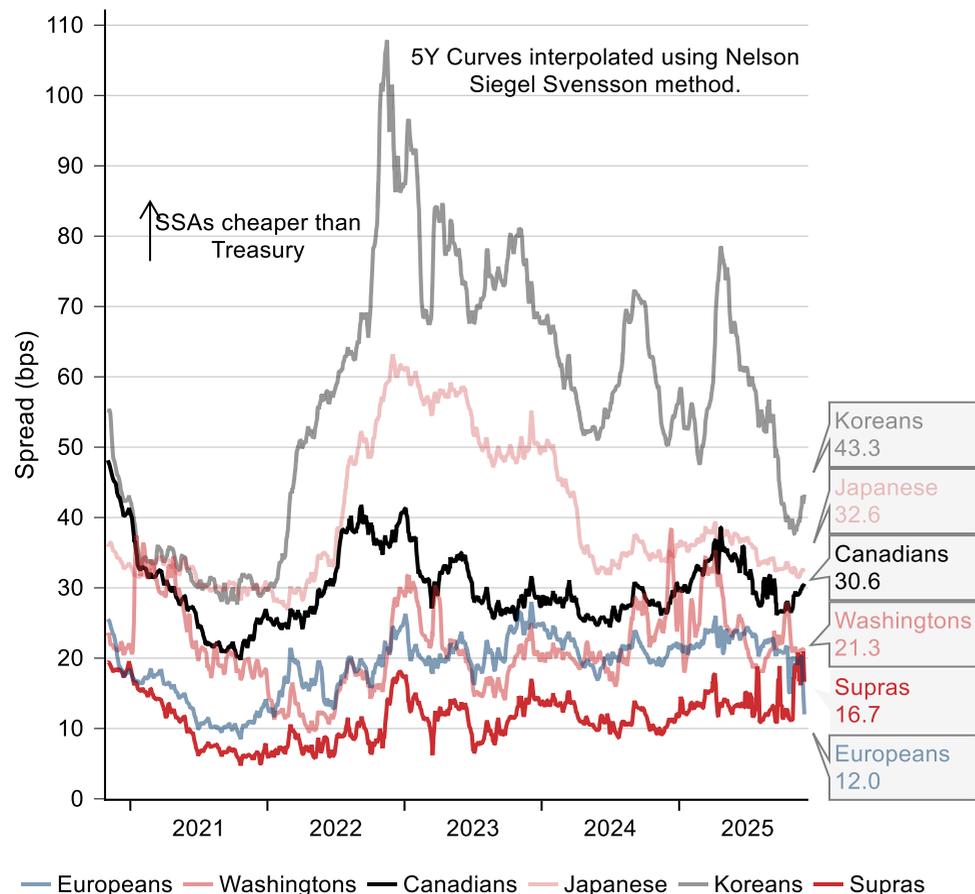


\$ SSA spreads to US (5Y)

- 2025 has been a year of USD SSA richening, but we are less optimistic about 2026.

\$ SSA spreads to US 5Y, 7-day moving average

\$ SSA spreads to US (5Y), 7-day moving average



The story behind USD SSAs

- 2025 was a year of two halves. Firstly, USD issuance seemed to be front-loaded before Liberation Day, which prevented any strong richening of USD SSAs G-spreads. Then, Liberation Day came, causing a major risk-off move that also spilled over to USD SSAs, where spreads to USTs widened. However, investors seemed to use this opportunity as a way to lock in higher yields, which eventually helped this sector tighten vs USTs.
- Another interesting feature this year has been the compression of Asian USD SSA spreads (especially Koreans) to other USD SSAs. Koreans are one of the higher-beta plays within the SSA universe. USD Koreans tightened in similar fashion to the IG/HY spread compression seen post Liberation; a way for investors to lock in higher yields in a resilient risk environment.
- USD swap spreads have been moving wider since Liberation, but USD SSAs have avoided any major widening – contrary to what the positive rolling beta between USD swap spreads and USD SSA G-spreads would suggest. Our view is for USD swap spreads to continue to move wider as deregulation leads to increased demand for Treasuries, which may come to bite USD SSAs as well.

1) Supras: EIB, IADB, ASIA, EBRD, NIB

2) Washingtons: IBRD, IFC

3) Canadian: ONT, Q, BRCOL, ALTA

4) Japanese: DBJJP, JFM, TOKYO, JBIC, JICA

5) Koreans: EIBKOR, KDB

6) European: NRW, BNG, KFW, CADES, OKB, RENTEN, LBANK, SEK, OKB, NEDWBK, KOMMUN, KOMINS, NRWBK, KUNTA

EUR SSA ASW Spreads (10Y)

- Rolling regression of 10Y ASW on 10Y Bund ASW, ECB Terminal Rate (proxied by 1Y1Y swap rate).
- SSA spreads have tightened from the start of the year → we find swap spreads the main driver of this.
- The ECB Terminal Rate has remained range bound over the past year.

EUR Supranationals 10Y ASW Spread (Fitted)

EUR Supranationals 10Y ASW Spread (Fitted)



— EUR Supranationals 10Y ASW Spread
 — EUR Supranationals 10Y ASW Spread (Fitted)

EUR AAA Agencies 10Y ASW Spread (Fitted)

EUR AAA Agencies 10Y ASW Spread (Fitted)



— EUR AAA Agencies 10Y ASW Spread
 — EUR AAA Agencies 10Y ASW Spread (Fitted)

USD SSA ASW Spreads (5Y)

- USD supra and agency look fairly priced according to our model

USD Supranationals 5Y ASW Spread (Fitted)

USD Supranationals 5Y ASW Spread (Fitted)



— USD Supranationals 5Y ASW Spread
 — USD Supranationals 5Y ASW Spread (Fitted)

USD Agencies 5Y ASW Spread (Fitted)

USD Agencies 5Y ASW Spread (Fitted)



— USD Agencies 5Y ASW Spread — USD Agencies 5Y ASW Spread (Fitted)

GBP Europe SSA ASW Spreads (5Y)

- GBP supra and agency look fairly priced according to our model

GBP Supranationals 5Y ASW Spread (Fitted)

GBP Supranationals 5Y ASW Spread (Fitted)



GBP Europe Agencies 5Y ASW Spread (Fitted)

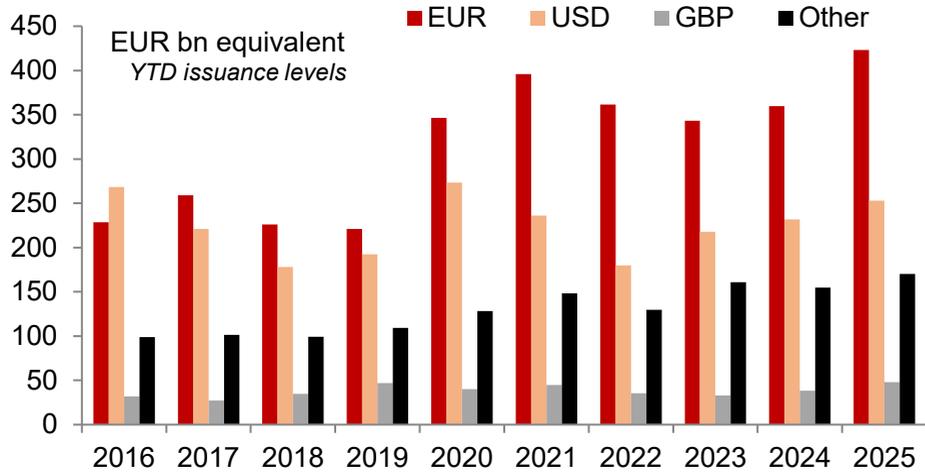
GBP Europe Agencies 5Y ASW Spread (Fitted)



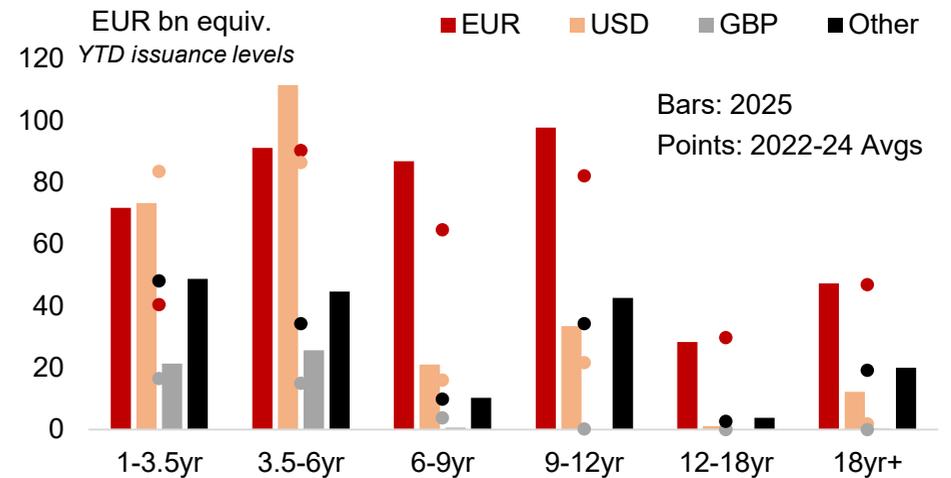
SSA Supply: 2025 at a glance

- EUR issuance has been one of the themes this year, even in shorter maturity buckets. The strong receptions of issuance in the EUR market and the cheapness vs historical levels are in our view the main reasons behind. The EUR market remains strong, with good reception of primary, which suggests that **EUR issuance may still be in vogue**.

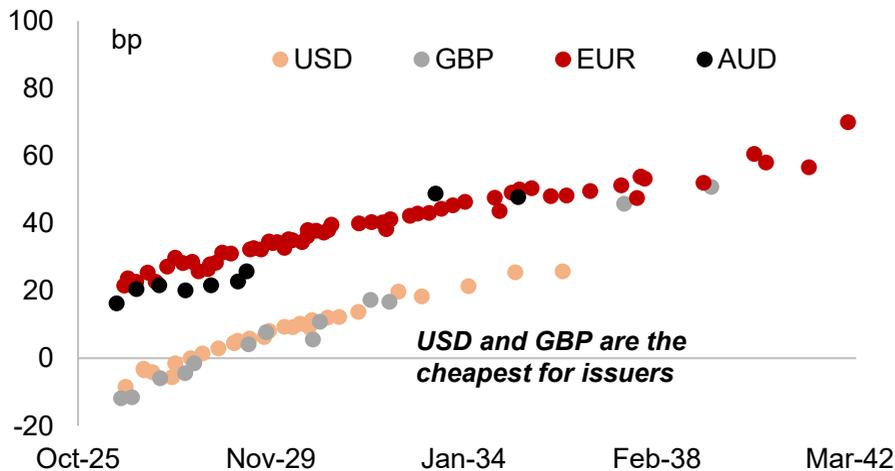
2025 has been a stellar year for EUR SSA issuance



Maturity preference: EUR WAM decreased, GBP+USD WAM increased



EIB's case study: Z-spread comparison (with XCCY)



Ccy attractiveness evolution: EUR vs USD

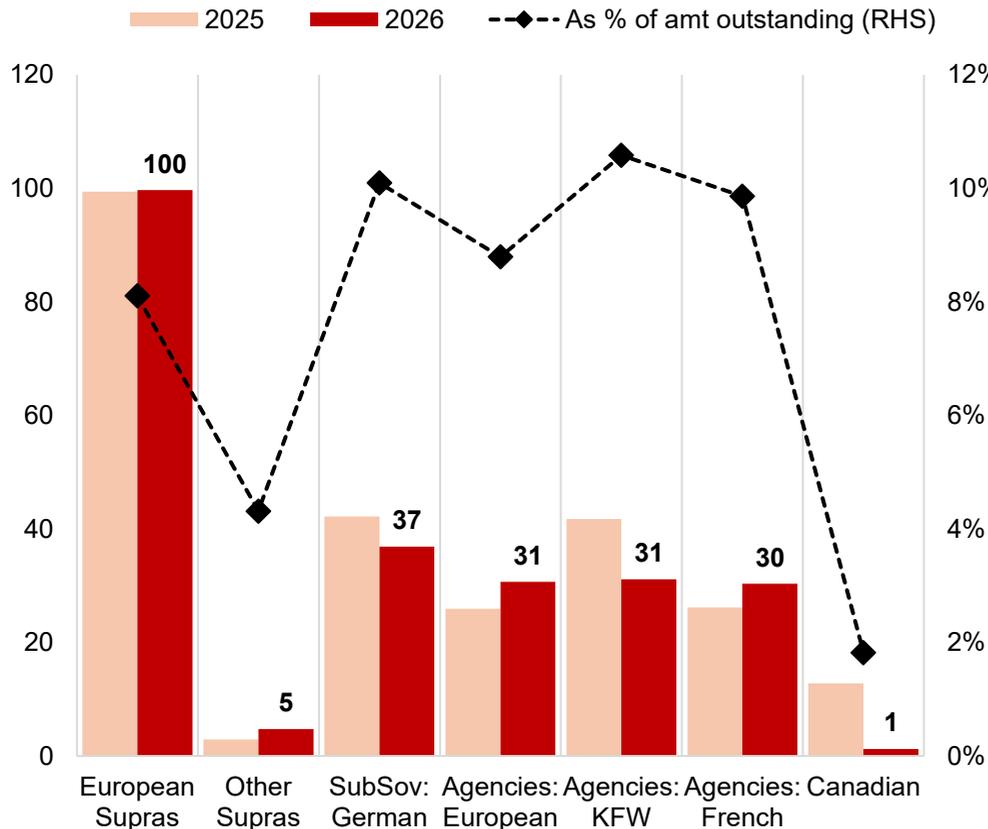


SSA Refunding Needs for 2026

- **EUR:** Generally decreasing refunding pressure vs 2025. Largest redemptions in E-Names (€96bn), European SubSov and Agencies, especially in French agencies (€30bn) and KfW (€31bn, 11% of amount outstanding).
- **USD:** Similar refunding pressure to 2025, but with some names prone to more issuance like non-EU Supras (€45bn equiv.), Canadians (€20bn equiv.) and EU SSAs (incl. FR agencies at €21bn equiv.). Japanese also have another year of large redemptions (35% of the amt. outstanding).

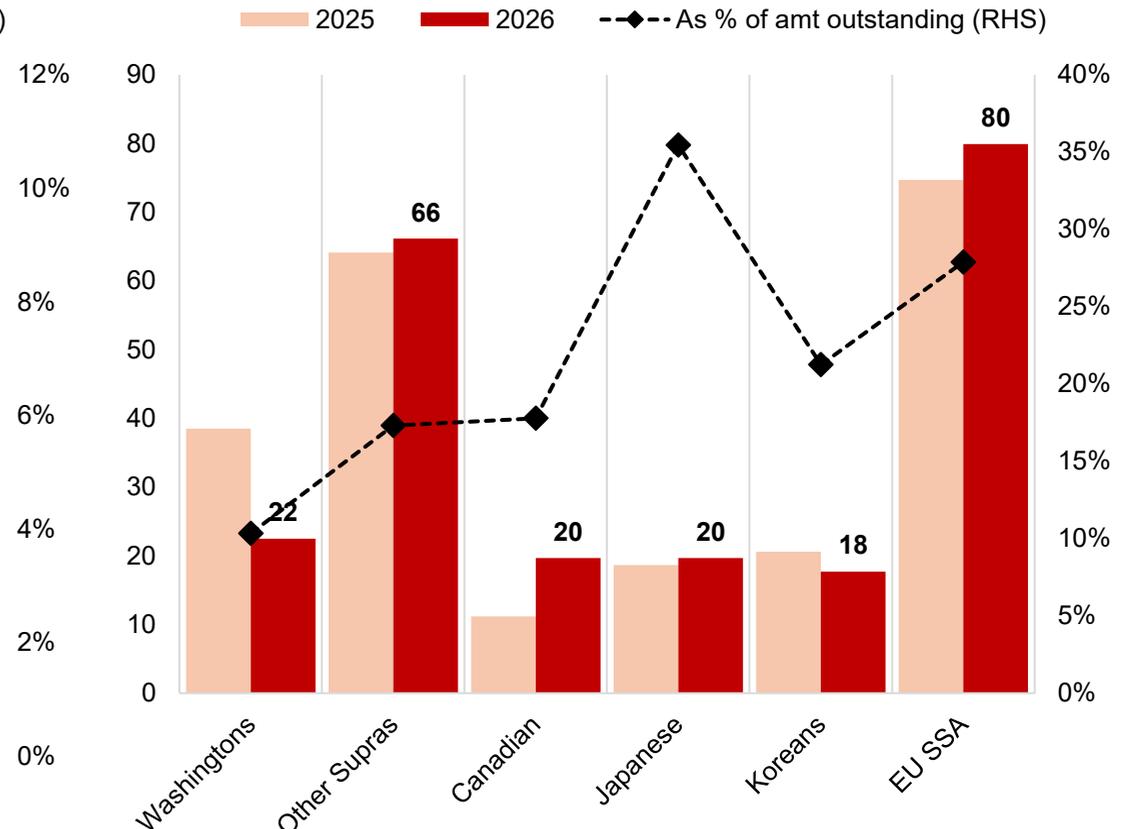
EUR Refunding needs

EUR: 2026 Refunding Needs (EUR bn)



USD Refunding needs

USD: 2026 Refunding Needs (EUR bn)

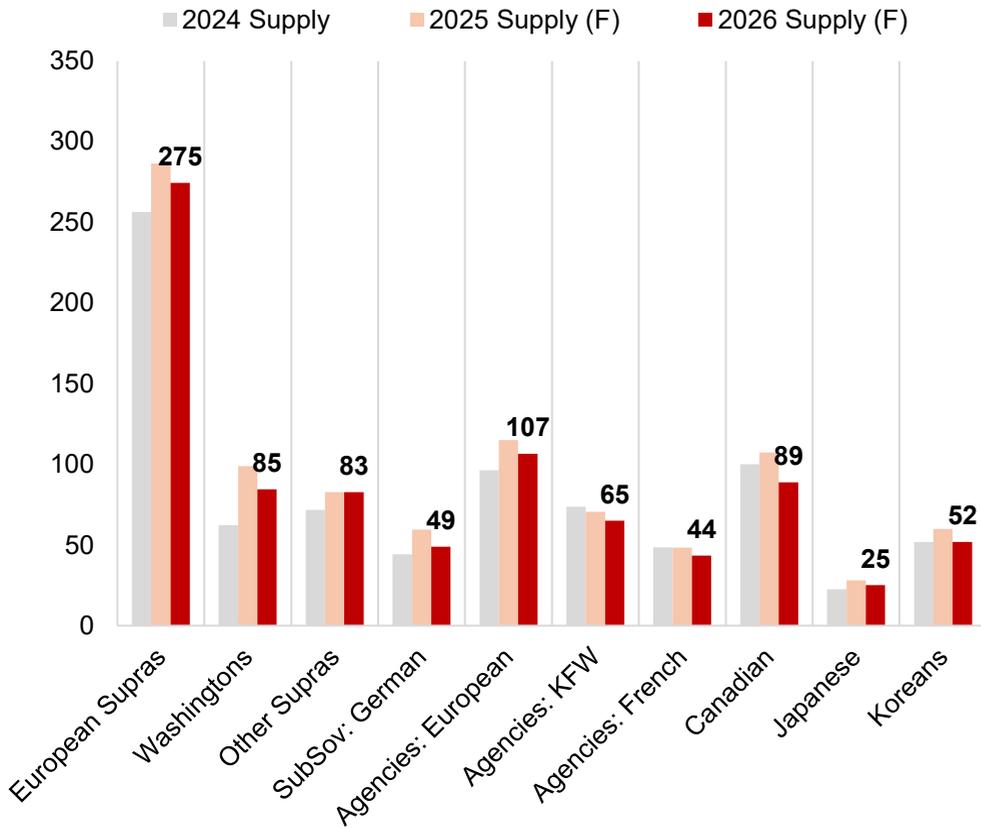


2026 SSA Supply

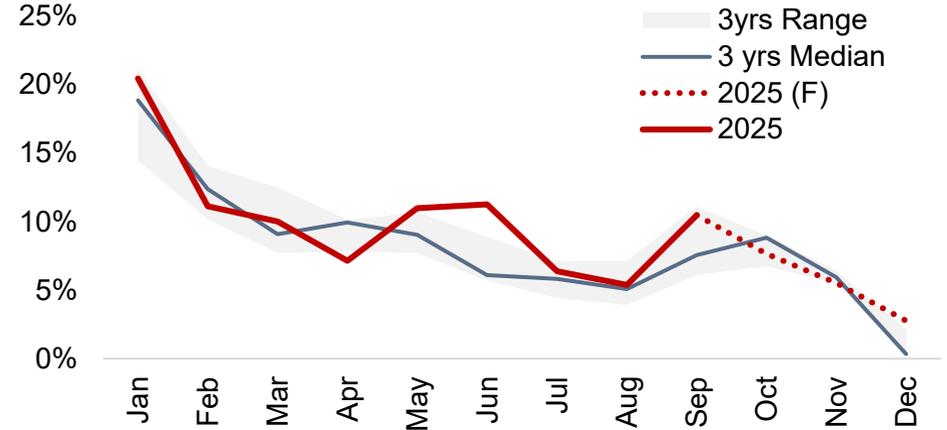
- Lower refunding needs in 2026 to see less supply pressure vs 2025. Some buckets like Supras will still see similar pressure. EUR issuance remains attractive, which opens the door to another heavy EUR SSA issuance year. Supply will likely be frontloaded, as per the usual seasonality – something that could impact SSA spreads especially after the tightening we have been seeing lately.

2026 SSA Supply Expectations

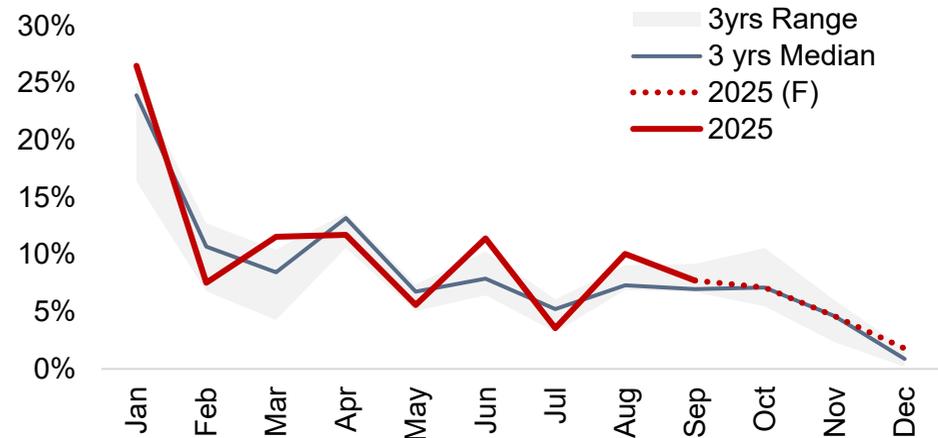
2026 SSA Supply Expectations



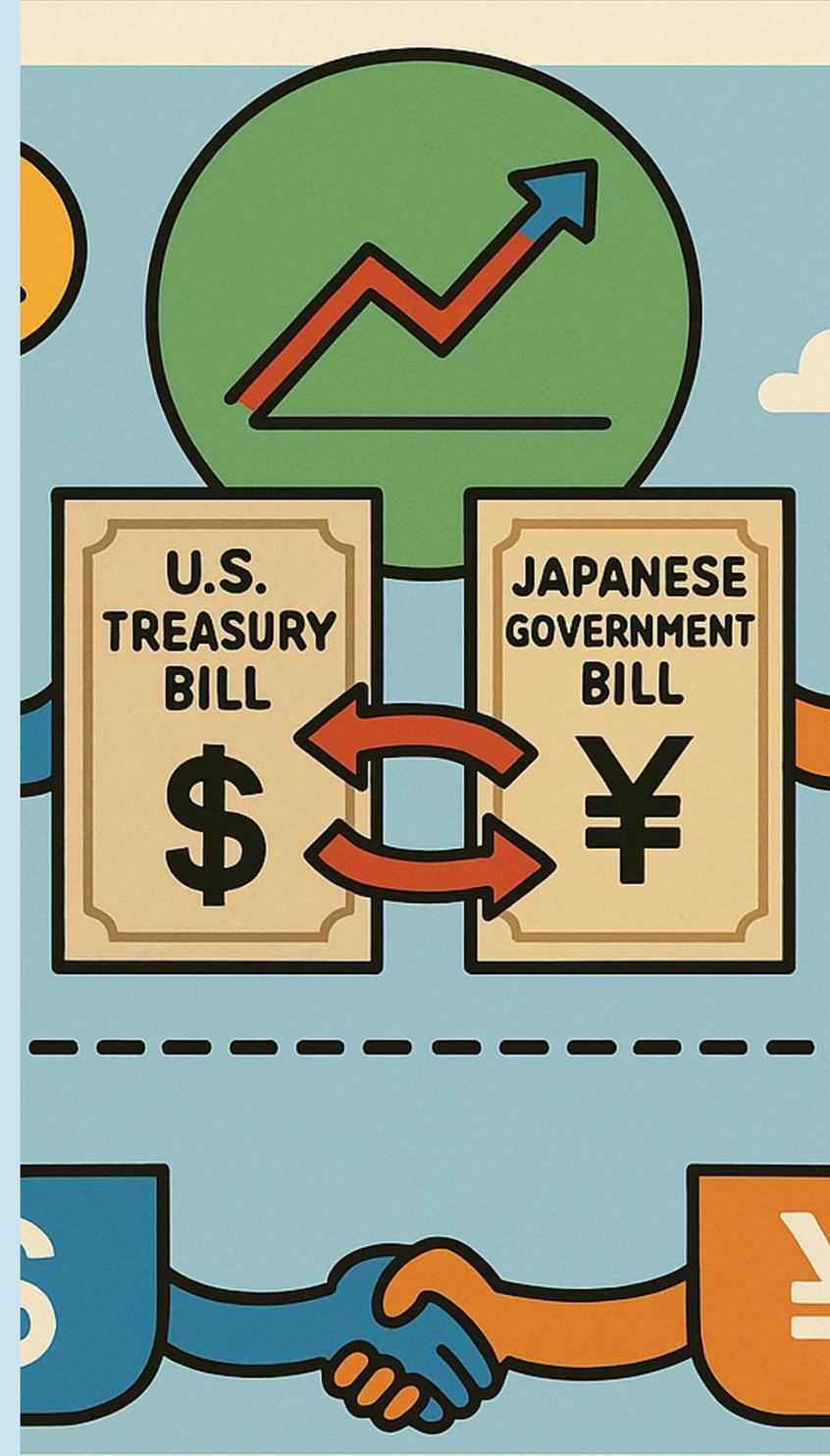
EUR SSA Supply: Seasonality



USD SSA Supply: Seasonality



XCCY / FX Basis



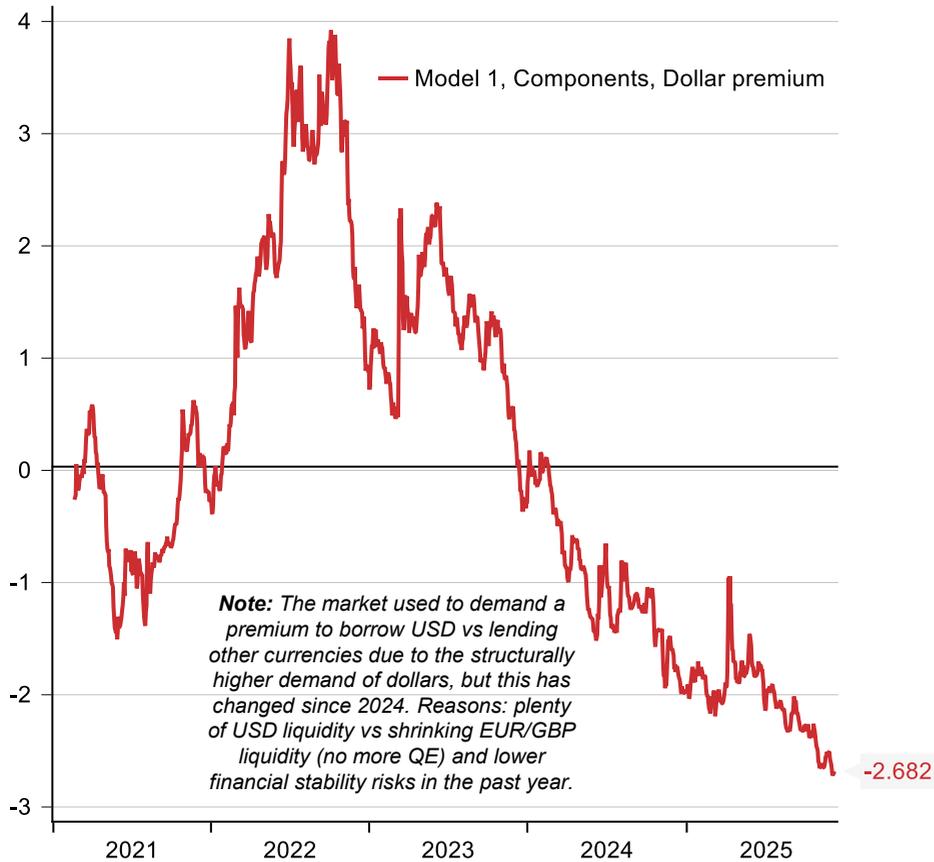


XCCY Basis views

- The dollar premium remains compressed. Liberation Day and funding stress weren't enough 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

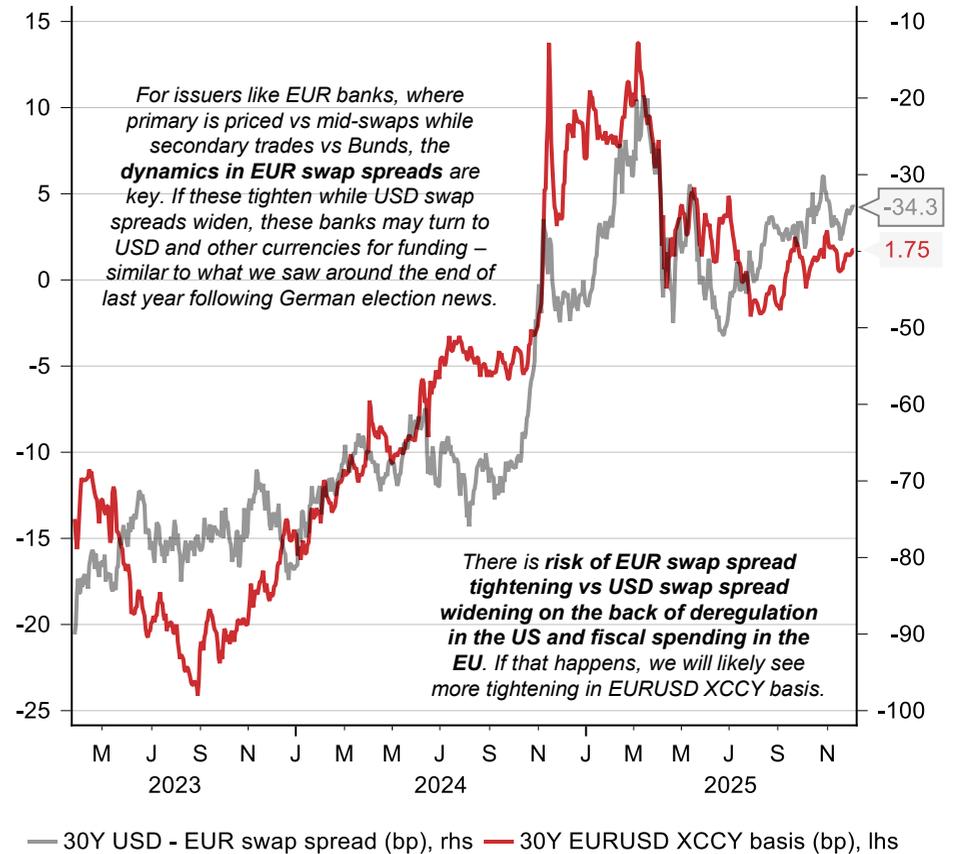
Borrowing dollars is not as costly as it was in 2022

Dollar premium proxy



EURUSD XCCY is now driven by swap spread differential

EURUSD XCCY: driven by swap spread differentials





EURUSD XCCY Basis view

- We are looking for the EURUSD XCCY curve to steepen in coming months due to our relative swap spread view (USD swap spreads widening more than EUR swap spreads) and ongoing attractiveness of EUR issuance for non-EU-based issuers. We like receiving the belly vs paying the long end.
- “Sterling premium” to remain = EURGBP to remain tight

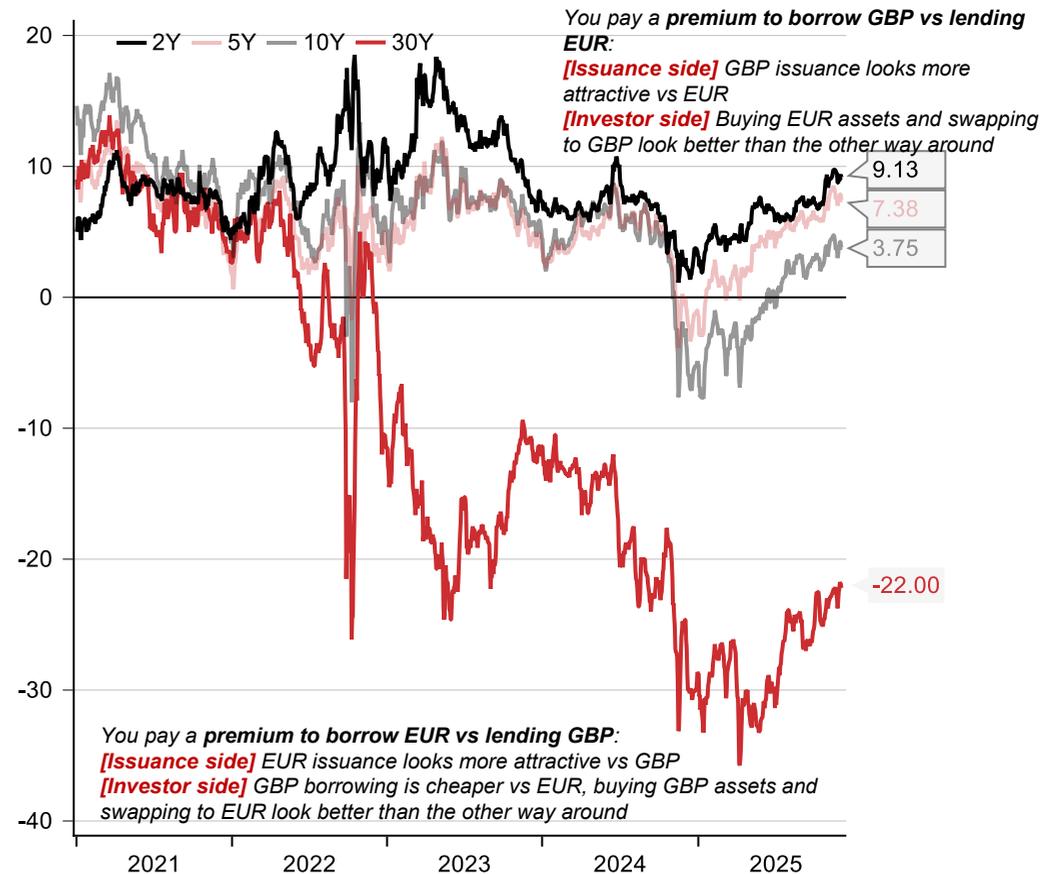
EURUSD XCCY

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

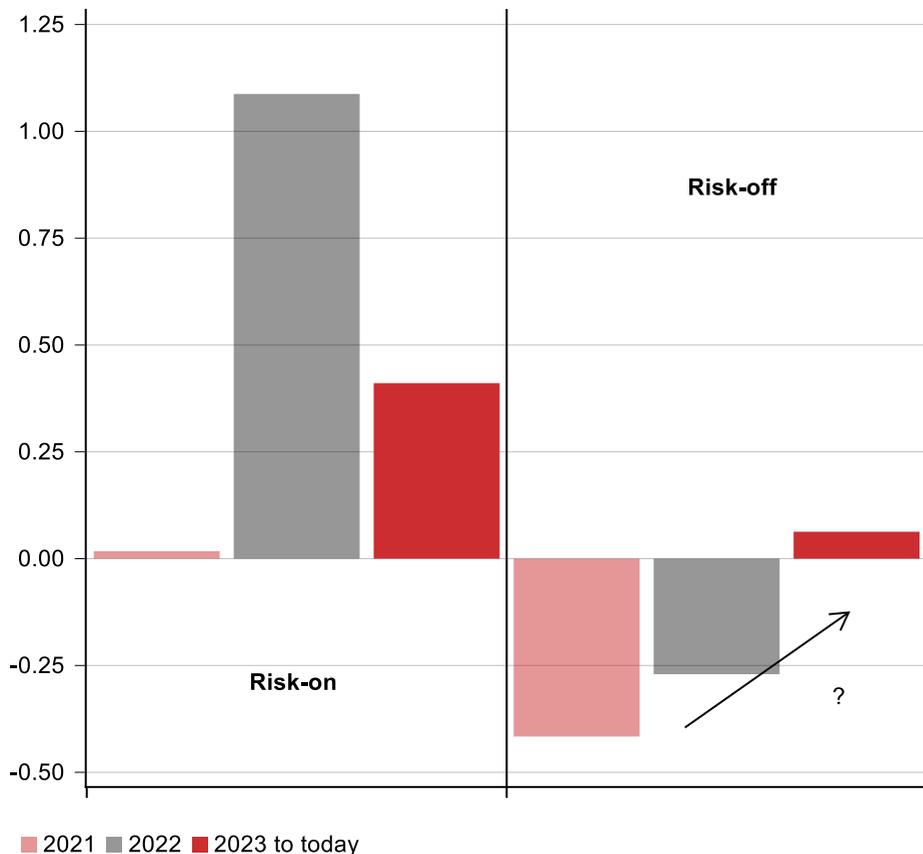


XCCY Basis views

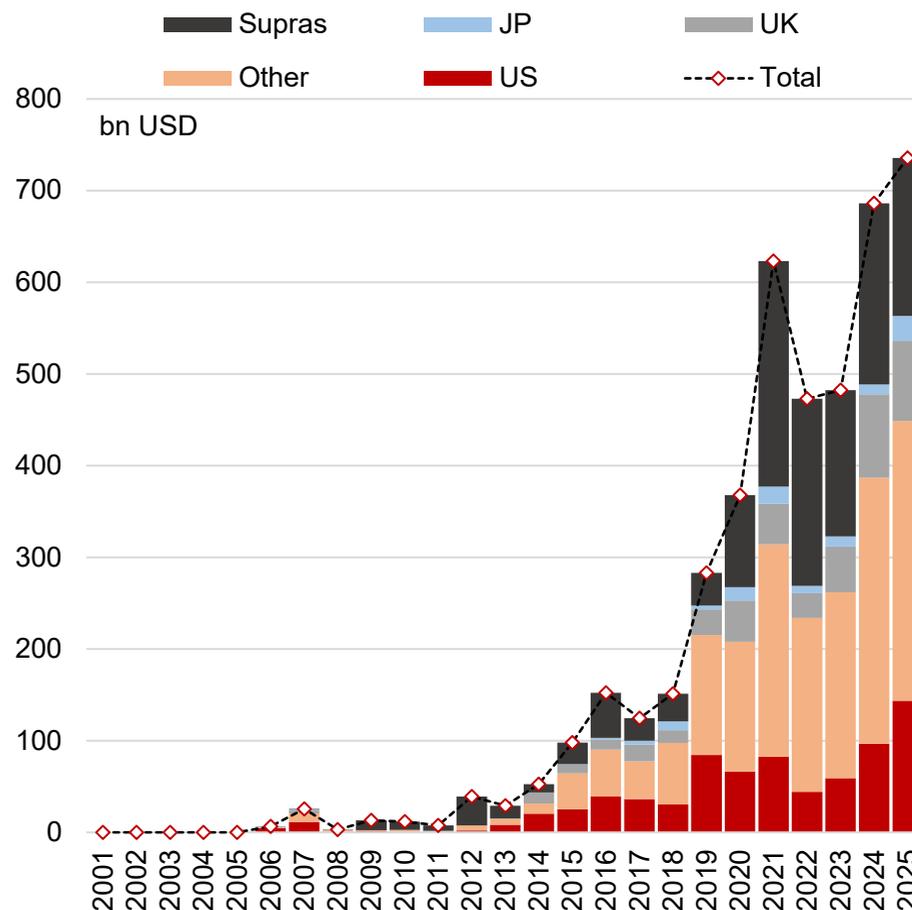
- EURUSD XCCY is not as reliant to risk sentiment as before
- This was a record year for EUR cross-border issuance and levels to issue in EUR still look attractive.

The beta to risk sentiment has decreased notably

EURUSD XCCY Beta to stocks (bp moves)



Calendar YTD EUR issuance from non-EU-based issuers





XCCY Basis views

- GBPUSD XCCY to remain well bid, except in the long end due to the structural demand-supply mismatch
- In USDJPY it's one direction only: up! JGB ASW (swapped to SOFR/ESTR) still in demand.

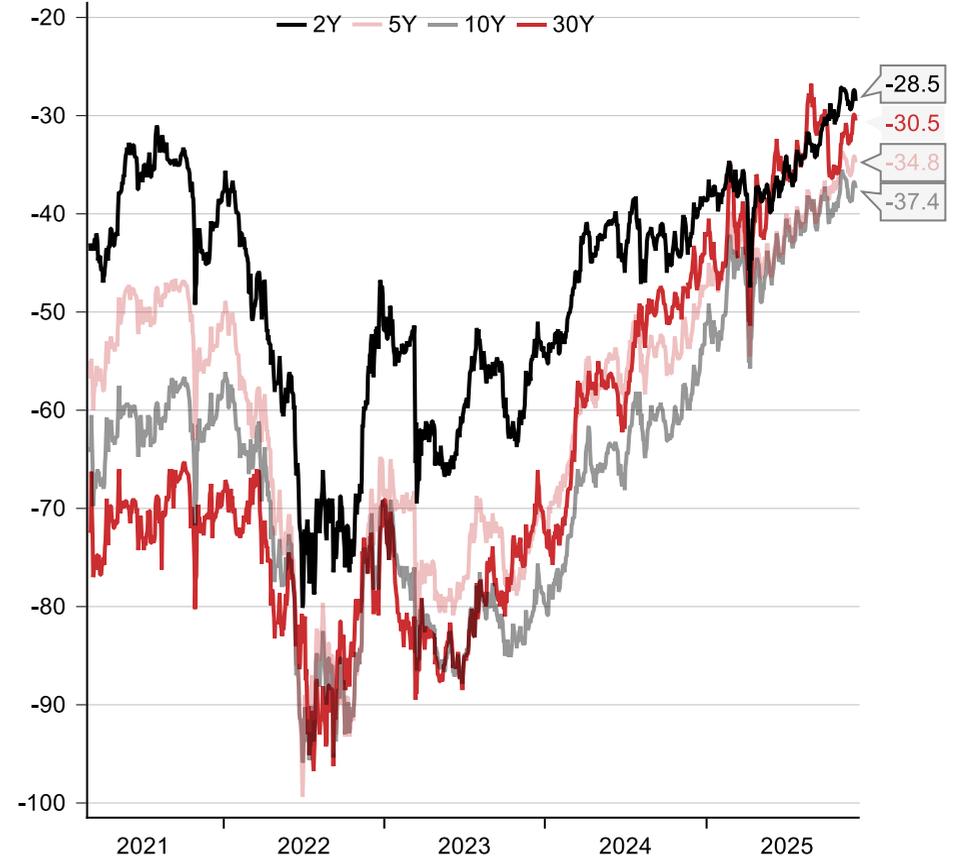
Sterling premia to remain in the front-end and belly

GBPUSD XCCY basis (bp)



Relentless paying

USDJPY XCCY basis (bp)

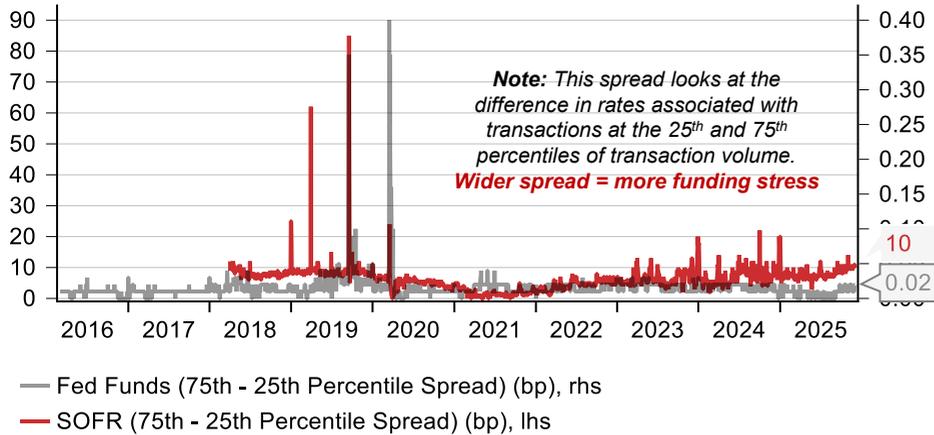




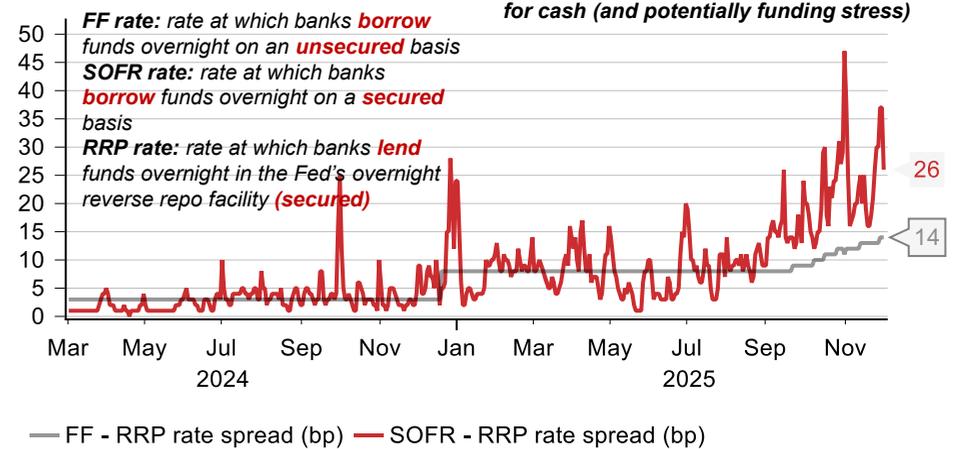
USD Funding markets: Tracking the “Dash-for-Cash”

1. Spreads are widening – will the end of QT alleviate funding markets?

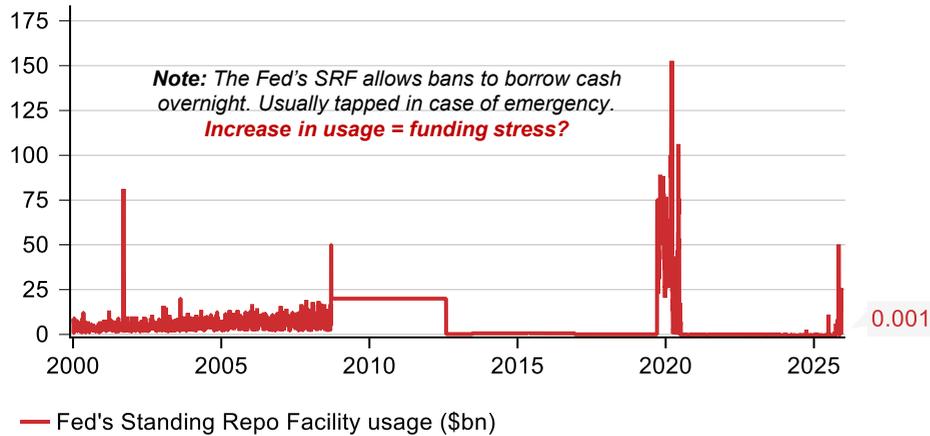
Fed Funds vs SOFR dispersion



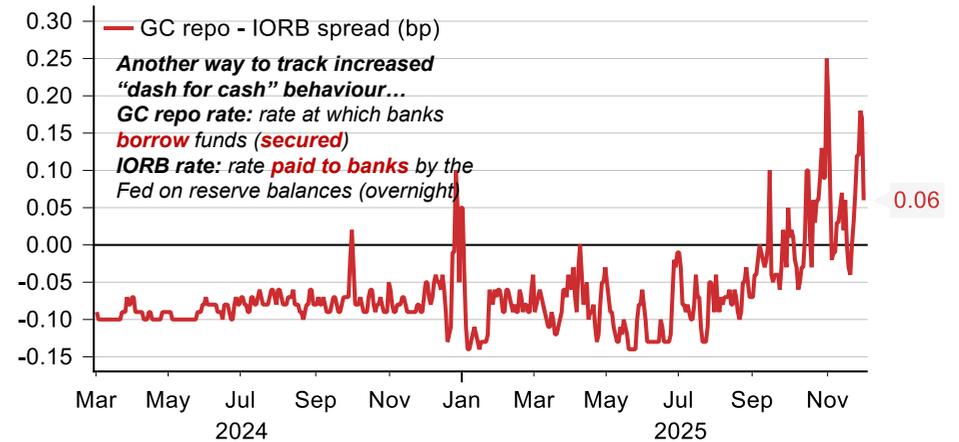
RRP spreads to SOFR and FF



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



GC repo vs IORB spread





USD Funding: key trackers

- 1. No more RRP cushion
- 2. Reserves moving closer to stress levels

RRP close to zero

Fed Overnight Reverse Repo



Reserves hovering around a key stress level

Reserves at the Fed (% of GDP)

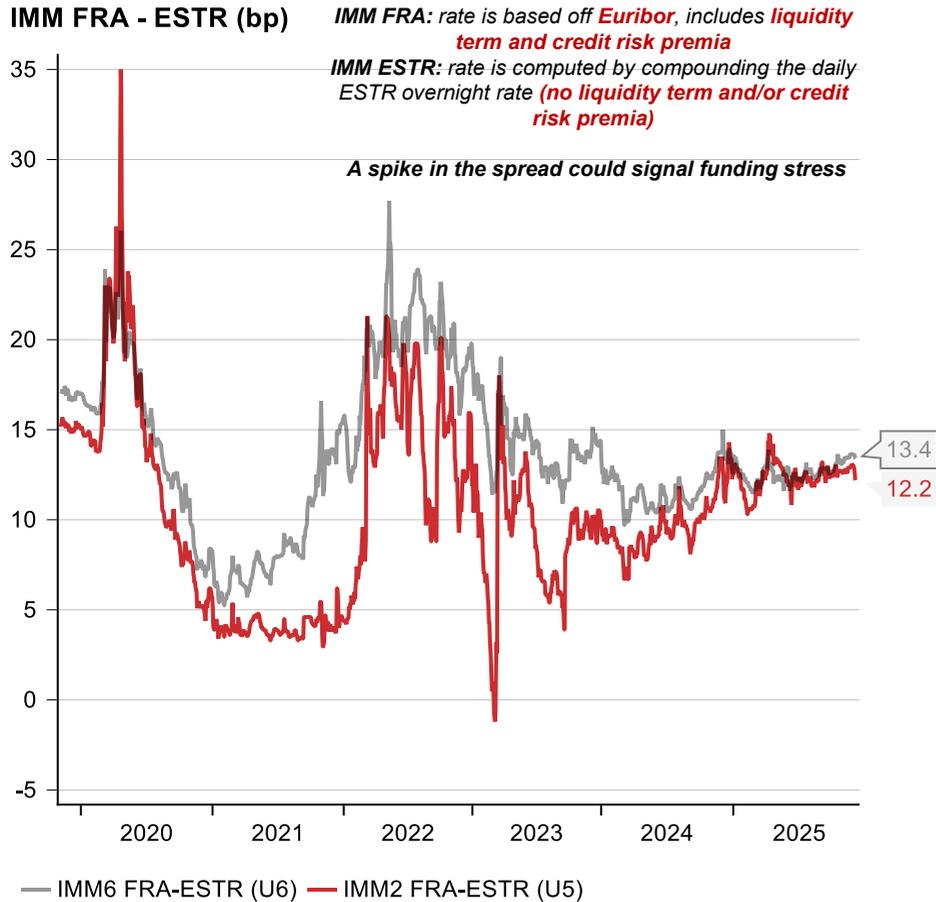




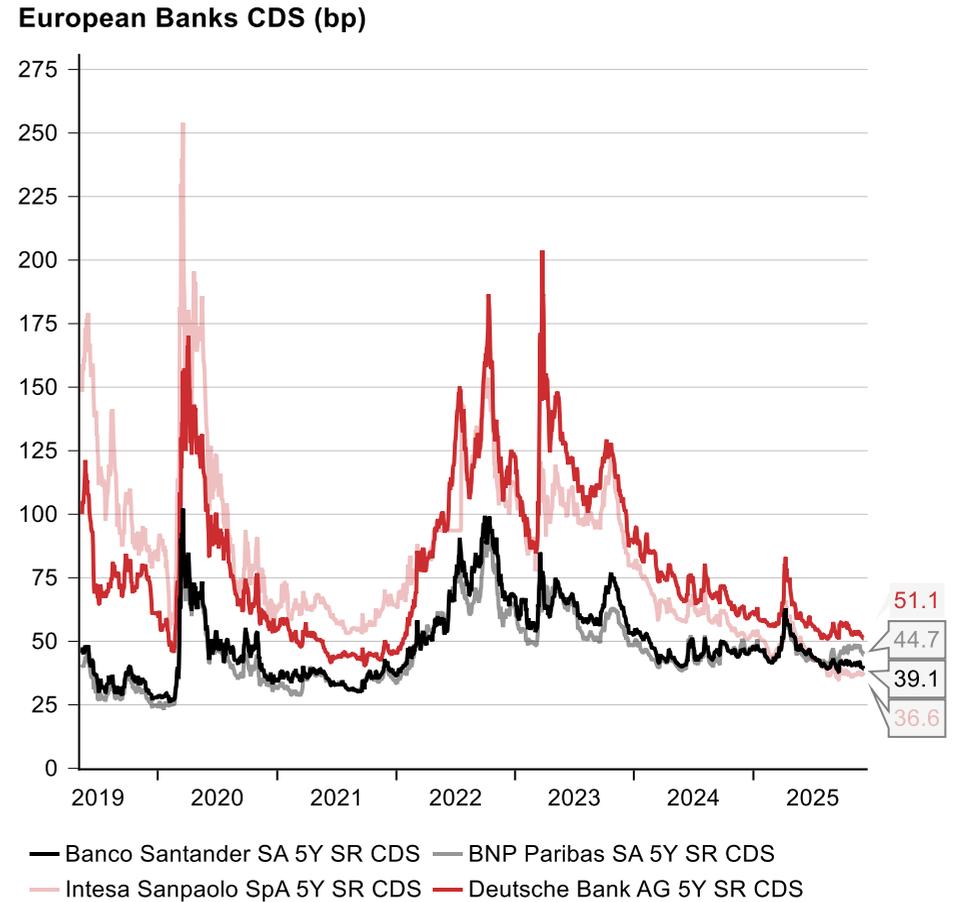
EUR Funding markets: Tracking the “Dash-for-Cash”

1. Nothing to highlight in EUR land

Shorter-term spreads are being squeezed



Major EUR banks' CDS remain tight



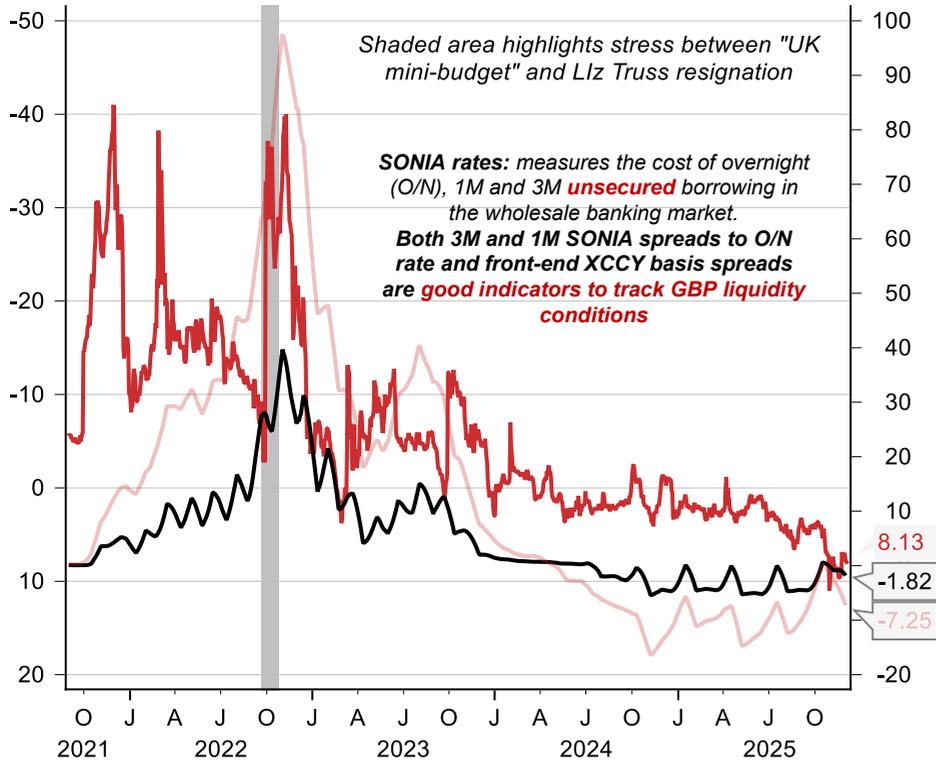


GBP Funding markets: Tracking the “Dash-for-Cash”

1. No stress in GBP funding markets

Funding spreads remain relatively contained

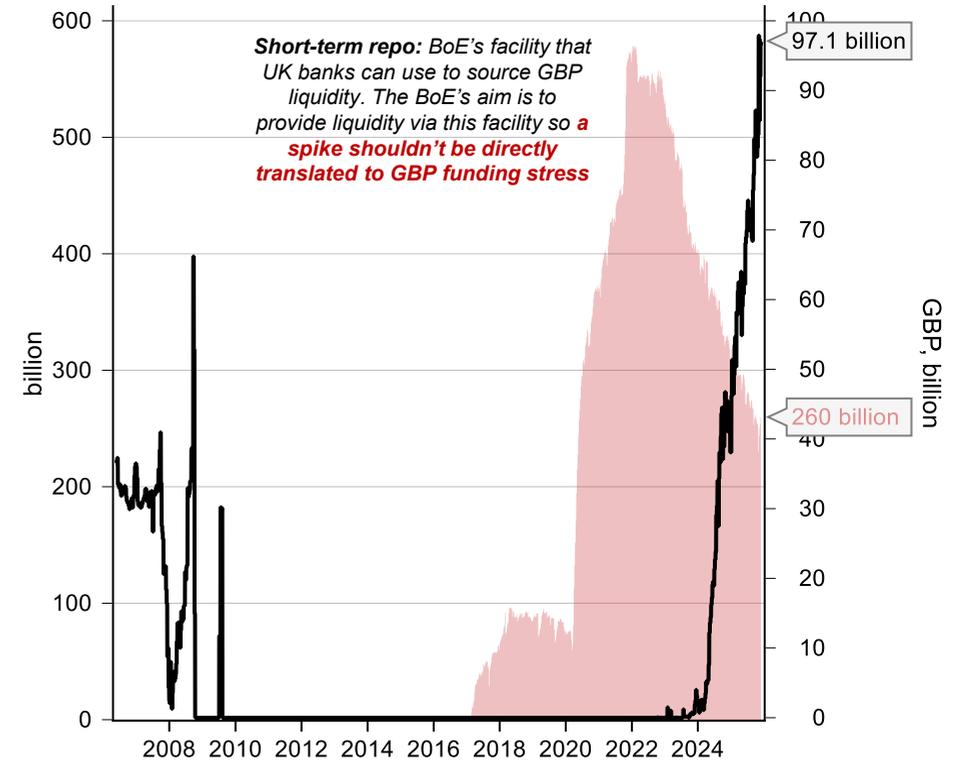
Front-end rates suggest that stress is contained for now



— 3M - O/N SONIA Spread, rhs — GBPUSD SONIA/SOFR 3M, lhs
— 1M - O/N SONIA Spread, rhs

Banks are getting their liquidity from the BoE's short-term repo facility

Short-term repo usage has been rising significantly



— Short-term Repo, rhs
■ Excess Reserves (calculated as Current Reserves - £400bn), lhs

Current trade ideas

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. 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		-65.5	0.0	12.5	12.5
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.	-23.6	-10	-30		-20.32	1.8	3.3	14.6
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 amid pension reform talks. 2026 budget negotiations will be tricky. Spain looks attractive due to outlook for issuance and previous underperformance.	3.15	30	-5		25.79	-0.1	22.6	23.8
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		59.84	4.70	-0.1	8.7
EU	STIRT	28-Nov-25	Long ESTR Z6Z7 Steepeners	Medium	The ECB may be on hold in 2026; Solid growth momentum and higher German issuance will lead to steeper curves.	0.193	0.300	0.15		0.21	0.00	2.0	2.0
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		6.91	2.2	-3.1	10.4
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		-0.27	0.0	33.5	33.5
UK	STIRT	11-Nov-25	Long SFIM6U6	Medium	UK pricing is expected to have peaked, services may slow faster than expected. Weaker UK labour market figures will push more BoE members dovish. Budget expected to be austere, adding a contractionary impulse.	-0.065%	-0.125%	0.000%		-0.060%	0.0	-0.5	-0.5
UK	Spreads	26-Nov-25	Long 10Y Gilt vs 10Y UST	Medium	The UK Budget knocks off 0.3% from CPI in 2026, allowing for a more dovish BoE outlook. A hawkish Fed cut in Dec and supportive sentiment to drive higher UST yields.	41.4	10	62		37.2	0.9	4.2	4.4
UK	Curve	26-Nov-25	UK 5s30s Flattener (Swaps)	Medium	DMO announced higher gilt sales in the medium end and cuts in the long end, with the overall increase (+£4.6bn) less than expected. We expected curve to continue bull flattening as risk premium in the UK reduces.	83.7	64	96		81.5	0.5	2.2	2.4
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		121.14	-1.9	36.1	24.5
JPY	Curve	04-Dec-25	Short 10Y on 2s10s30s fly	Medium	Improving participation in long-end JGB auctions that we expect to continue. Steepening in the ultra long end gone too far if BoJ is hiking and MoF is cutting long-term issuance. Adding the 2Y leg to hedge against a scenario of slower BoJ hikes cycle given how much is priced. Risks: Weak long term auctions, ongoing domestic buyers' strike, global steepening.	-57.5	-15	-80		-57.50	2.4	0.0	0.0
Total											10.5	74.4	151.9

USD trades



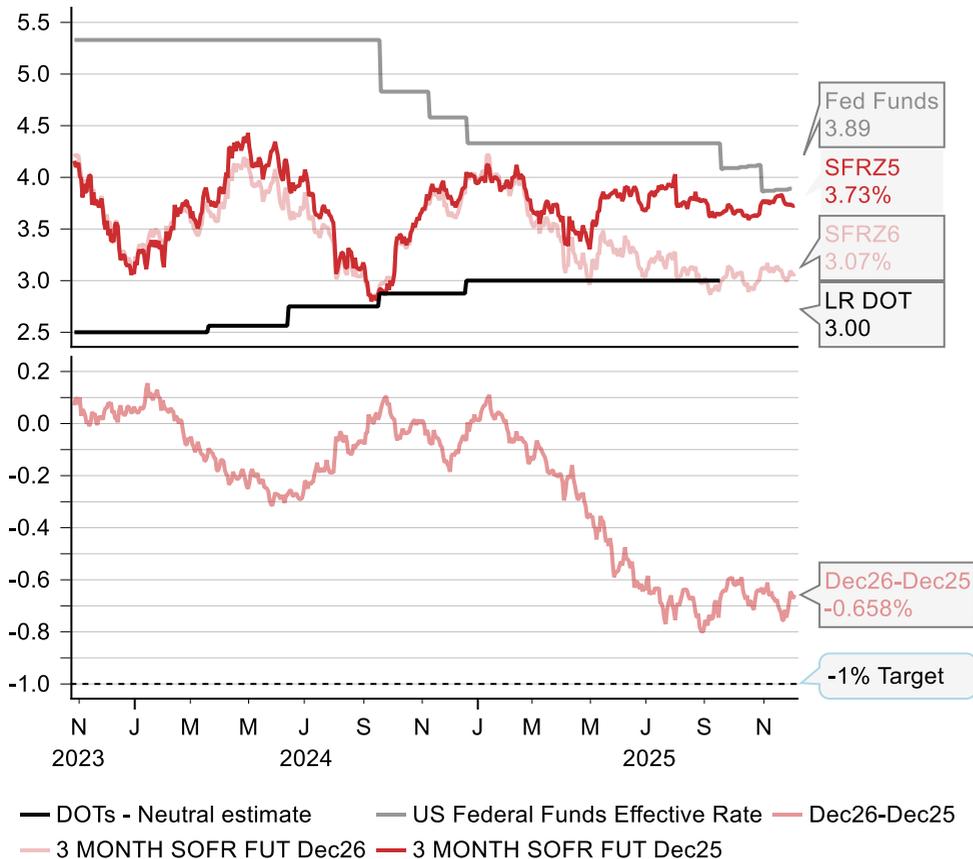


USD STIRT

- Price in less cuts in 2025, more in 2026 = **SFRZ5Z6 flatteners**
- Entry: -53bps; Target: -100bps (by end Dec); Stop: -60bps (tightened to lock in some profit)

Fed pricing 2025/26

New Fed chair, political influence and weak NFP = deeper cuts priced in 2026?



Why?

- **Rationale:** The weak NFP, the latest comments from Trump, Bessent and a variety of new Fed chair candidates has seen the market price in deeper cuts for 2025, we continue to expect this to be a market that will price in deeper cuts in 2026 with the actual arrival of the new Fed chair. Despite data (inflation at least) arguing caution, the politics will matter more.
- **Risks:** US Labour data materially softens in the near term raising the risk of a 50bps cut or US data surprise rebound.
- **Key dates:**
 - **5 Dec:** US PCE (Sep)
 - **9 Dec:** US JOLTS (Oct)
 - **10 Dec:** FOMC Meeting
 - **10 Dec:** US Employment Cost Index (Q3)
 - **16 Dec:** US Employment Cost Situation (Nov)
 - **18 Dec:** US CPI (Nov)
 - **Early Nov to Dec:** Supreme Court on tariffs
 - **Dec/Jan:** Various tariff investigation deadlines under Section 232



Swap spreads

- Deregulation coming in early 2026 = **Long 2Y USD swap spreads.**
- Entry -23.6bps; Target -10bp; Stop -30bps. C&R /month = +1.78bps.

USD swap spreads to remain bid on deregulation optimism

USD Swap Spreads (bp)



Why?

- **Rationale:**
 - 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). This is just the first step of the US deregulation agenda.
 - Future action could include exempting Treasuries from the eSLR calculation, reforming the GSIB surcharge and other related capital requirements. All of which could incentivize banks to purchase more Treasuries, which should support this trade.
- **Risks:**
 - No follow through from the regulators or only minor tweaks to the SLR.
 - Higher than expected US fiscal spending.
- **Key dates:**
 - **Q1-26:** Regulators to unveil new plans

EUR trades





EUR STIRT – Long ESTR Z6Z7 Steepeners – markets to look beyond 2026

- **Long ETSR Z6Z7 steepeners** - Entry: 0.193%; Target: 0.3% (by end Mar26); Stop: 0.15%.
- ECB may have one more cut ahead; but markets will entertain steeper curves in 2027/28

ESTR futures pricing by Dec 2025

ESTR Z6Z7 Steepeners - futures pricing and front end curve steepness



Why?

- **Rationale:**
 - The ECB may be on hold or entertain one more rate cut in 2026;
 - Solid growth momentum and higher German issuance will lead to steeper curves.
- **Risks:**
 - European data surprises deteriorate, and inflation risks fall materially to the downside.
 - Oil continues to fall and growth rolls over.
- **Key dates:**
 - **5 Dec:** Germany (S&P) rating review
 - **11 Dec:** Vote on first part of France draft budget law
 - **16 Dec:** Eurozone Manufacturing PMI's (Dec, Flash Estimate)
 - **17 Dec:** Inflation Data (Final) Release
 - **18 Dec:** ECB Meeting
 - **18-10 Dec:** European Council meeting
 - **Dec:** Final vote on the France draft budget law

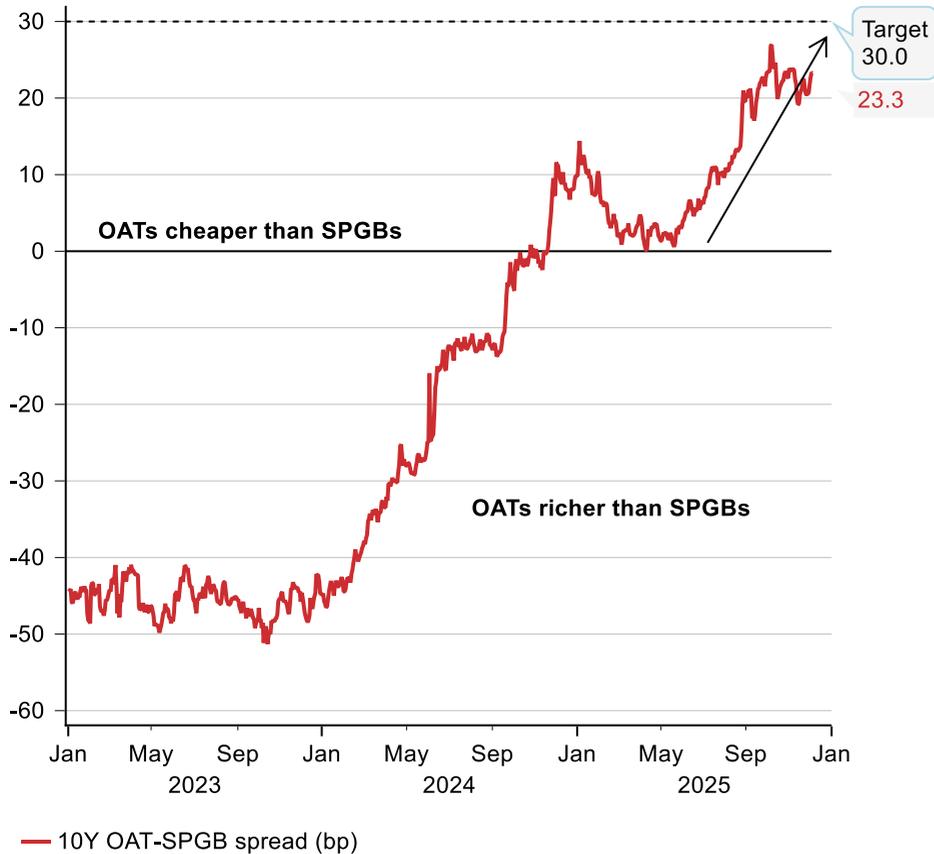


EUR Rates - Spreads

1. We remain bearish OATs on fundamentals = **Long 10y SPGB (SPGB 3.15% Apr35) vs OAT (OAT 3.2% May35)**
2. Entry: 4.5bps (Date: 10th April); Target: 30bp (by end Dec); Stop: -5bps. C&R/month = -0.05bps.

10Y OAT-SPGB spread (bp, using interpolated yields)

Interpolated 10Y SPGB vs interpolated 10Y OAT



Why?

Rationale:

- The future of France’s public finances doesn’t look too rosy – either fresh elections or a much slower fiscal consolidation. France’s debt sustainability trajectory looks worrying and political risk premium is still warranted. There is also the risk of further downgrades to single-A later in the year. Against this backdrop, Spain looks like an attractive proposition as there is no issuance push coming later in the year and rating momentum is on the upside.

Risks:

- Spanish government collapsing over the 2026 budget.
- France overdelivering on fiscal consolidation without public unrest.

Key dates:

- **16 Dec:** Eurozone Manufacturing PMI’s (Dec, Flash Estimate)
- **17 Dec:** Inflation Data (Final) Release
- **18 Dec:** ECB Meeting
- **18-10 Dec:** European Council meeting

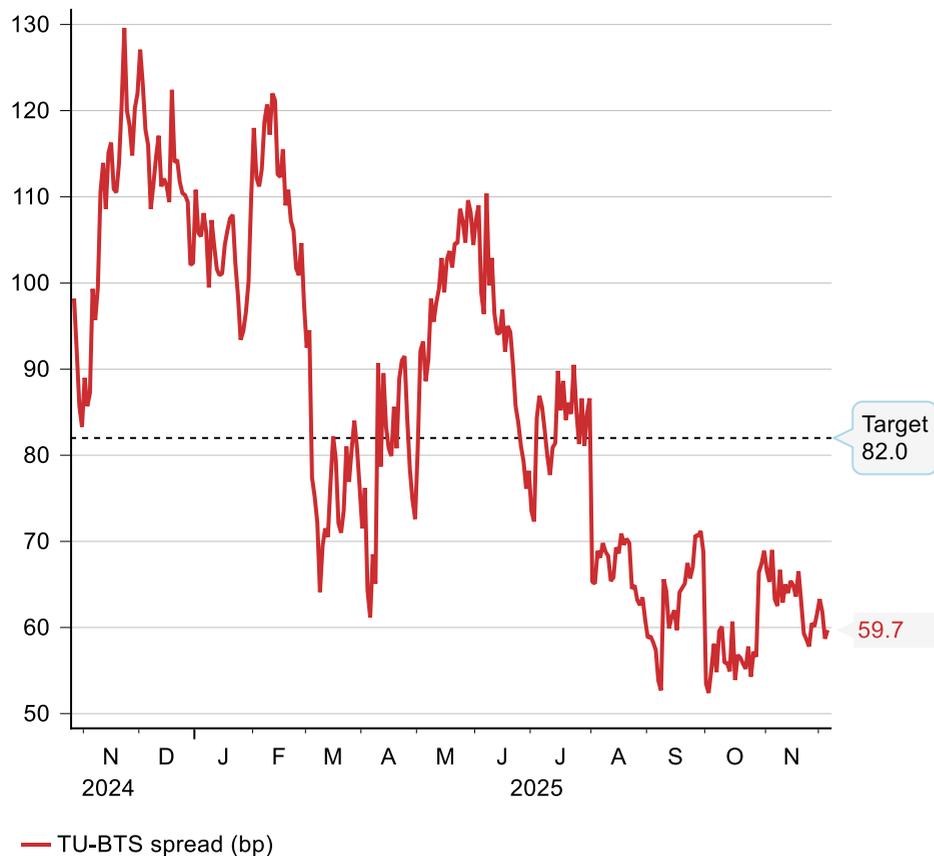


EUR Rates - Spreads

1. Another way to prepare for a dovish ECB repricing with a hefty cushion = **Long BTS (short-term BTP future) vs short TU (2yr UST future)**
2. Entry: 3.82c | 59.9bp (Date: 9th October); Target: 4.5c | 82bp (by end Dec); Stop: 3.5c | 49.5bp. C&R/month = +4.7bps.

2Y UST-BTP spread using futures

TU- BTS spread (spread of Mid YTM)



Why?

Rationale:

- Data turning weaker in the Eurozone, triggering a dovish ECB repricing, while Fed narrative remains unchanged/slightly hawkish
- EUR rates vol to remain low, allowing BTP-Bund spreads to remain tight

Risks:

- Weak US data and markets pricing a below-neutral terminal for the Fed
- Strong EU data that reassures the ECB to wait and see
- Pre-auction concessions

Key dates:

- **5 Dec:** Eurozone GDP (3Q)
- **10 Dec:** FOMC Meeting
- **18 Dec:** ECB Meeting
- **18 Dec:** US CPI (Nov)
- **18-19 Dec:** Final European Council meeting of 2026

GBP trades





GBP Rates – Long SFIM6U6 (Jun 2026, Sep 2026)

1. Pricing in a sequential rate cut in June and September as terminal rate heads towards 3%.
2. Entry: -0.065%; Initial target: -0.125% (by end-Dec) then -0.25% (by end-Feb); Stop: 0.00%. **Long SFIM6U6**

SFIM6U6 vs SONIA

BoE pricing in SONIA Futures



Receive SFIZ5

- **Rationale:**
 - UK inflation is expected to have peaked and Services may slow faster than expected.
 - Weaker UK Labour market figures will push more BoE members into the “dove” camp as we approach next year despite high CPI.
 - The upcoming budget is expected to be austere, adding a contractionary impulse.
- **Risks:**
 - More Inflation surprises over summer. Global rates selloff with strong US data.
 - UK spending raised at budget (unlikely).
 - BoE call off the cycle.
- **Key dates:**
 - **5 Dec:** DMO to publish gilt operations calendar
 - **16 Dec:** Labour market data, S&P Flash PMI (Dec)
 - **17 Dec: UK CPI Inflation (Nov)**
 - **18 Dec: BOE Meeting**
 - **19 Dec: UK Retail Sales (Nov)**

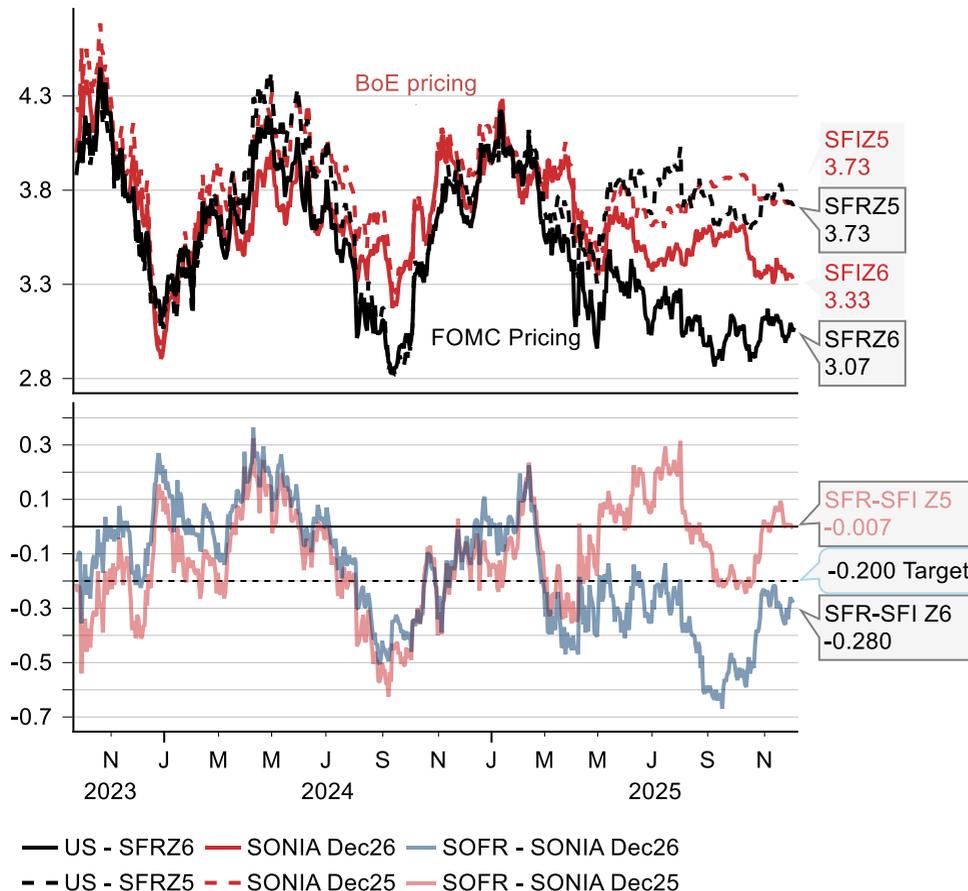


GBP Rates – Long SFIZ6 vs SFRZ6

1. UK pricing has shifted decisively hawkish; but we expect the Labour market data to keep cuts priced in Z6
2. Entry: -0.60%; Target: -0.20% (by end-Nov); Stop: -0.70%. **Long SFIZ6 vs SFRZ6**

SFIZ5, SFIZ6 vs SONIA

BoE pricing vs FOMC



Receive SFIZ5

- **Rationale:**
 - It's rare for UK front end pricing to deviate this much from the US. Eventually gravity will apply.
 - Weaker UK Labour market figures will push more BoE members into the "dove" camp as we approach next year despite high CPI.
 - UK inflation is expected to have peaked in September (October release). Services may slow however.
- **Risks:**
 - More Inflation surprises over summer. Food especially.
 - UK spending raised at budget (unlikely).
 - Further cuts priced into the US curve, BoE call off the cycle.
- **Key dates:**
 - **5 Dec:** DMO to publish gilt operations calendar
 - **16 Dec:** Labour market data, S&P Flash PMI
 - **17 Dec: UK CPI Inflation (Nov)**
 - **18 Dec: BOE Meeting**

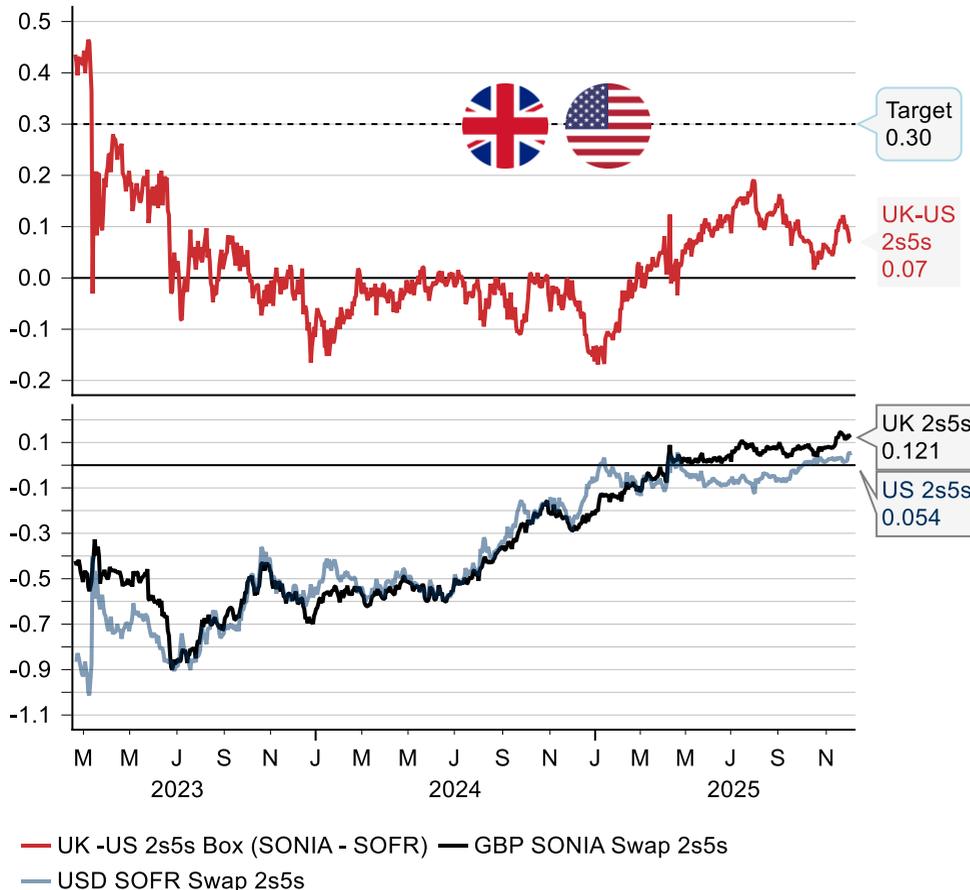


GBP Rates – 2s5s Curve UK vs US

1. US pricing already has enough cuts, not enough in UK front end = **Long UK-US 2s5s box steepener**
2. Entry: 10bps; Target: 30bps (by end Dec); Stop: 0bps. C&R/month = +2.2bps

US-UK 2s5s Box spread

UK - US 2s5s Box spread



UK 2s5s (SONIA Swaps)

- **Rationale:**
 - UK curve to steepen as the market will price a more aggressive BoE cutting cycle vs US.
- **Risks:**
 - UK spending raised at budget.
 - FOMC considering deeper cuts.
 - US growth/labour markets weaken.
 - Global risk off.
- **Key dates:**
 - **5 Dec:** US PCE (Sep)
 - **5 Dec:** DMO to publish gilt operations calendar
 - **10 Dec:** FOMC Meeting
 - **16 Dec:** Labour market data, S&P Flash PMI (Dec)
 - **17 Dec:** UK CPI Inflation (Nov)
 - **18 Dec:** BOE Meeting
 - **19 Dec:** UK Retail Sales (Nov)



GBP Rates – Long 10Y Gilt vs 10Y UST

1. The UK Budget is likely to be disinflationary, the gap to USTs should narrow; curves should flatten.
2. **Long 10Y Gilt vs 10Y UST.** Entry: 41.4bps; Target: 10bps (by end-Dec); Stop: 62bps, Carry +0.88bps/mth

10Y Gilt vs 10Y UST Yield

10Y Gilt vs 10Y UST Yield



Long Gilts

- **Rationale:**
 - The UK Budget knocks off 0.3% from CPI in 2026; allowing for a more dovish BoE outlook.
 - A Hawkish Fed cut in Dec and supportive sentiment to drive higher UST yields
- **Risks:**
 - UK inflation proves to be stickier.
 - UK labour market data markedly improves.
 - Budget is not as disinflationary as thought.
- **Key dates:**
 - **5 Dec:** DMO to publish gilt operations calendar for FQ4 (Jan-Mar)
 - **10 Dec:** FOMC meeting
 - **16 Dec:** Labour market data, S&P Flash PMI
 - **17 Dec:** UK CPI Inflation (Nov)
 - **18 Dec:** BoE Meeting, US CPI
 - **19 Dec:** UK Retail Sales (Nov)
 - **22 Dec:** UK GDP (3Q)
 - **30 Dec:** Nationwide House Prices



GBP Rates – UK 5s30s Flatteners

1. The UK Budget is likely to be disinflationary, the gap to USTs should narrow
2. **UK 5s30s Flattener.** Entry: 83.7bps; Target: 64bps (by end-Mar); Stop: 96bps, Carry +0.5bps/mth

10Y Gilt vs 10Y UST Yield

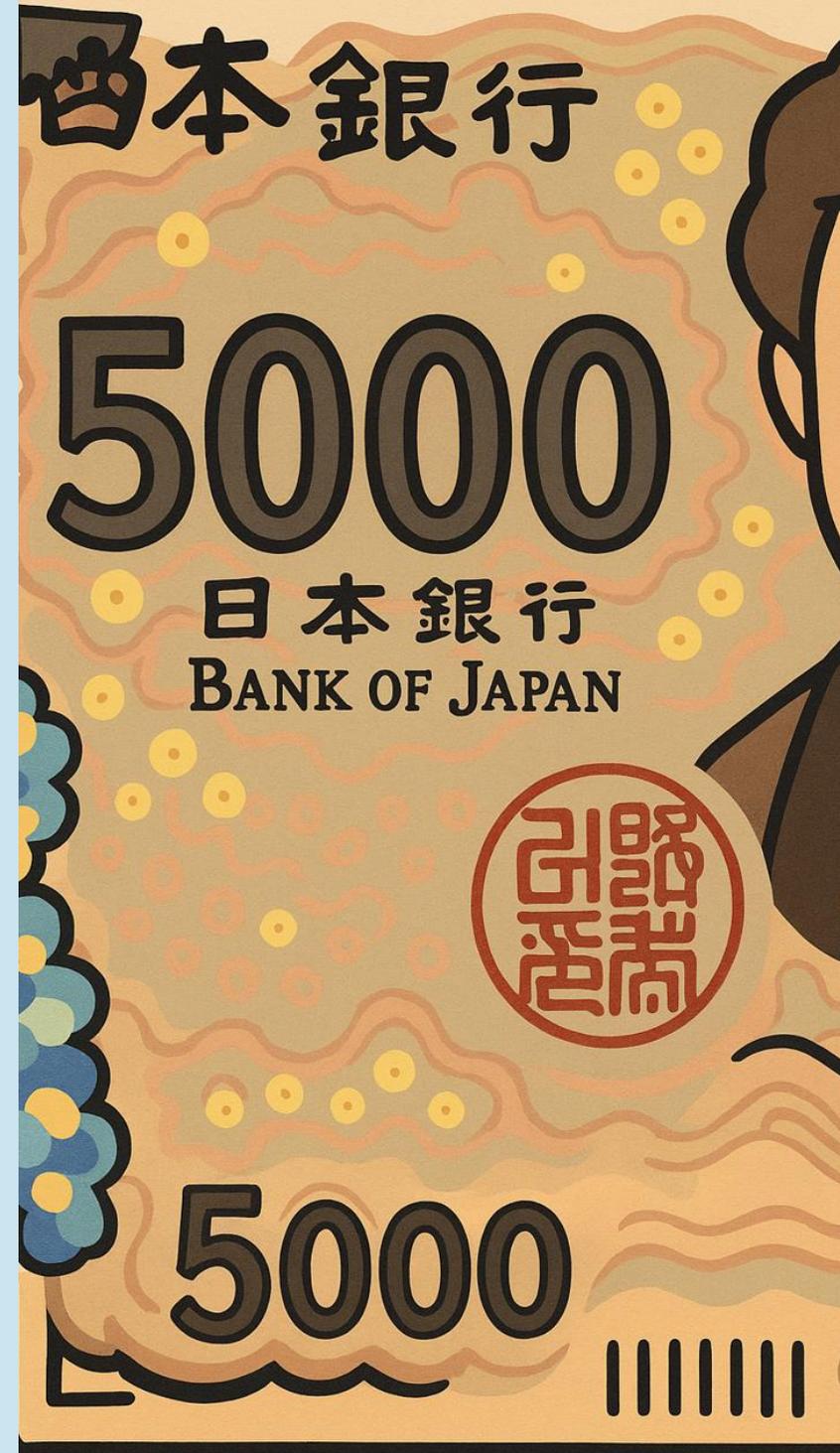
UK 5s30s Flattener



Long Gilts

- **Rationale:**
 - DMO announced higher gilt sales in the short and medium end and cuts in the long end, with the overall increase (+£4.6bn) less than expected. Structural tailwind to long end gilt yields.
- **Risks:**
 - Marginal buyer of long end gilts (Pension funds, insurers) do not provide a meaningful bid.
 - Confidence in UK drops following poor implementation of Budget policies. UK labour market data markedly improves.
- **Key dates:**
 - **5 Dec:** DMO to publish gilt operations calendar for FQ4 (Jan-Mar)
 - **10 Dec: FOMC meeting**
 - **16 Dec: Labour market data, S&P Flash PMI**
 - **17 Dec: UK CPI Inflation (Nov)**
 - **18 Dec: BoE Meeting**
 - **19 Dec: UK Retail Sales (Nov)**
 - **22 Dec: UK GDP (3Q)**

JPY trades

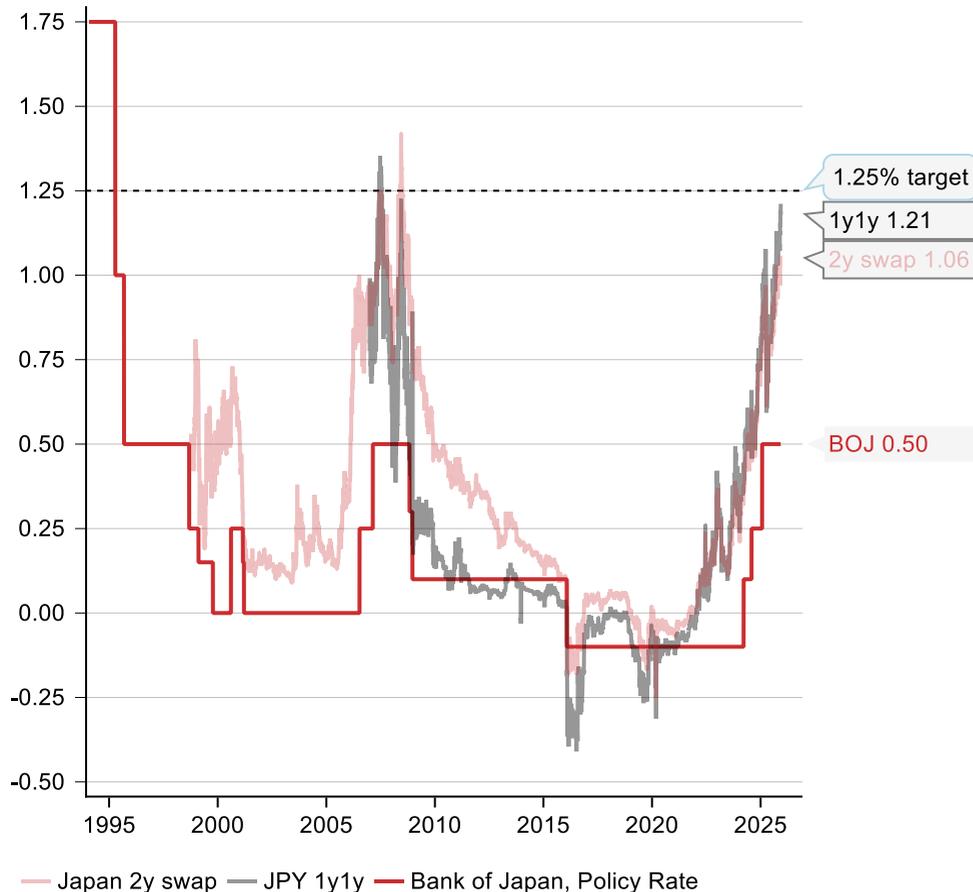


JPY STIRT

- BoJ hiking cycle back after LDP election? = **Pay JPY 1y1y OIS swaps**
- Entry: 85bps; Target 125bps (by end-Dec); Stop: 90bps. C&R/month = -1.9bps.

JPY 1y1y vs BOJ

BOJ policy vs Forwards and swaps



Why?

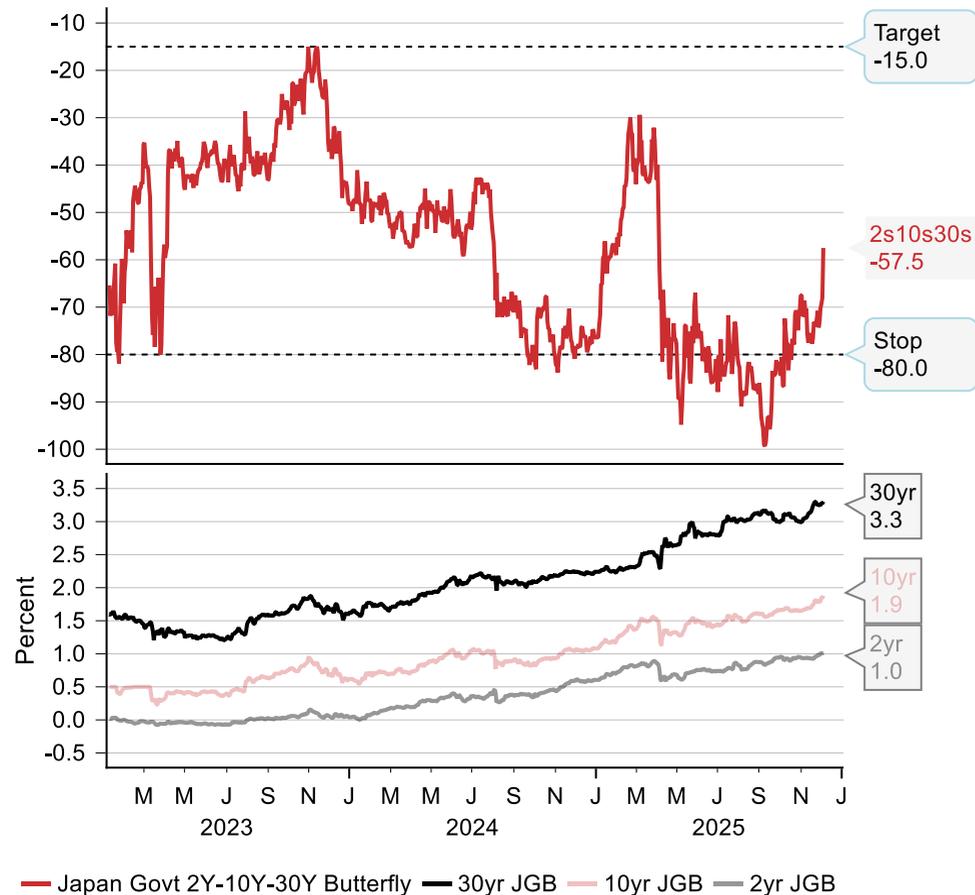
- **Rationale:**
 - Domestic data continues to point to the need for the BoJ to hike (solid Labour, Tankan and PMI surveys).
 - Weaker JPY despite hawkish re-pricing will embolden BoJ hawks.
 - Global risk sentiment recovery.
- **Risks:**
 - BoJ downgrades growth expectations and Global risk off.
- **Key dates:**
 - **15 Dec:** Tankan Survey
 - **19 Dec:** BOJ Meeting
 - **Late Dec:** Government cabinet expected to approve FY26 budget
 - **Late Dec:** Speech by BOJ Governor Kazuo Ueda at Keidanren
 - **Late Dec:** Various wage hike **demands** set by Workers' Unions

JPY Curve

- Issuance profiles shifting down the curve = **Short 10Y on 2s10s30s fly.**
- Entry: -57.5bps; Target -15bps (by end-Jun); Stop: -80bps. C&R/month = +2.4bps p/m.

Japan 2s10s30s vs JGBs

Japan 2s10s30s



Why?

- **Rationale:**
 - Improving participation in long-end JGB auctions that we expect to continue
 - Steepening in the ultra long end gone too far if BoJ is hiking and MoF is cutting long-term issuance
 - Adding the 2Y leg to hedge against a scenario of slower BoJ hikes cycle given how much is priced
- **Risks:**
 - Weak long-term auctions
 - Ongoing domestic buyers' strike
 - Global steepening pressure
- **Key dates:**
 - **9 Dec:** 5Y JGB auction
 - **11 Dec:** 20Y JGB auction
 - **15 Dec:** Tankan survey
 - **19 Dec:** BoJ monetary policy meeting
 - **25 Dec:** 2Y JGB auction
 - **Late Dec:** Ueda Speech Ueda at Keidanren
 - **6 Jan:** 10Y JGB auction
 - **8 Jan:** 30Y JGB auction

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