

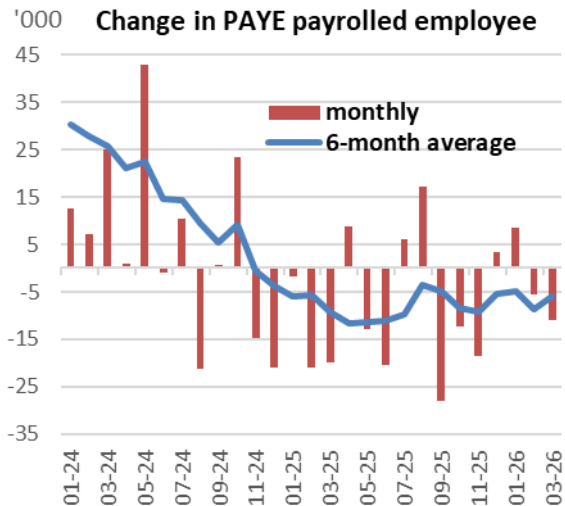
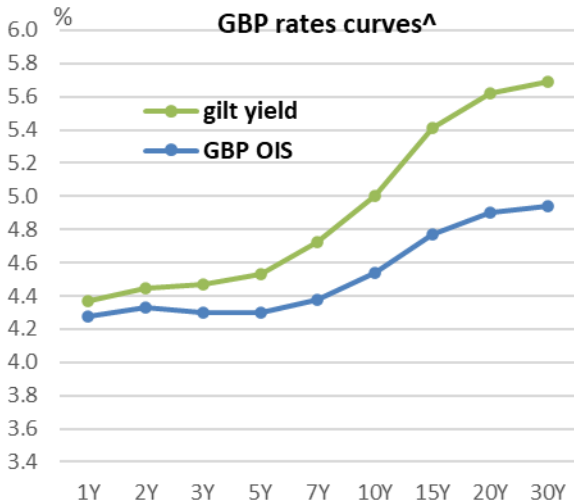
Interest Rates Thoughts

Curves bearish flattened

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- **USD rates.** Short-end bonds extended their underperformance on the UST curve, ahead of FOMC decision. The 2s10s segment is near the bottom of our expected range of 50-60bps. The Fed is in a wait-and-see mode, but in the scenario where there are hawkish elements in the FOMC Statement and/or Powell's commentaries, the segment may break below range in the interim. Hawkish elements could include some tweaks in the forward guidance of additional adjustments in rates, or balance of risk tilting to inflation upside while the economy held up. In that scenario, the next support for 2Y UST would be seen at 3.95%. Our base-case remains for one 25bp Fed funds rate cut by year-end. Beyond the near-term, we have a downward bias to 2Y yield on a multi-month horizon. 10Y UST yield broke above 4.35% overnight but has since retraced to just below that level - we see this as an interim cap for the yield, but we note 10Y breakeven has broken above 2.40% and hence we are watchful for any potential break in the nominal yield. Term premium remained well-behaved; next to watch is US Treasury's quarterly refunding documents on 4 and 6 May – with upside coming from tariff refunds and downside from RMPs. TGA balance was last at just above USD1trn on Monday, versus quarter-end target of USD900bn.
- **GBP rates.** 2Y and 3Y gilt yields rose by 5-6bps ahead of BoE decision later this week, where the central bank is expected to keep Bank Rate unchanged at 3.75%. We continue to see the room for BoE to hike rates as limited, given where Bank Rate is and expectedly slower wage growth ahead. PAYE payrolled employees fell by 11K in March while the February' figure was revised down to -6K from +20K. The split of votes at BoE decision will again be watched – the bar to voting for hikes still looks high. Given current market pricing of a 75% chance of a hike at June meeting, an 8-1 or 7-2 split vote (hold - 25bp hike) is probably seen as neutral. Central bankers may also err on the vigilant side in terms of rhetoric against upside inflation risk despite the growth impact. This may sustain hawkish market pricings - GBP OIS last priced a total of 64bps of hikes by year end, although such pricings appear overly hawkish to us. Reflecting the hawkish policy rate expectation, the gilt curve was flatter compared to levels seen in most of February before the Middle East conflicts. Meanwhile, the yield curve has remained steeper than the OIS curve reflecting the term/risk premium built into the longer end amid domestic political uncertainty. From a USD-funded perspective, asset swap pick up at 10Y gilt was last at

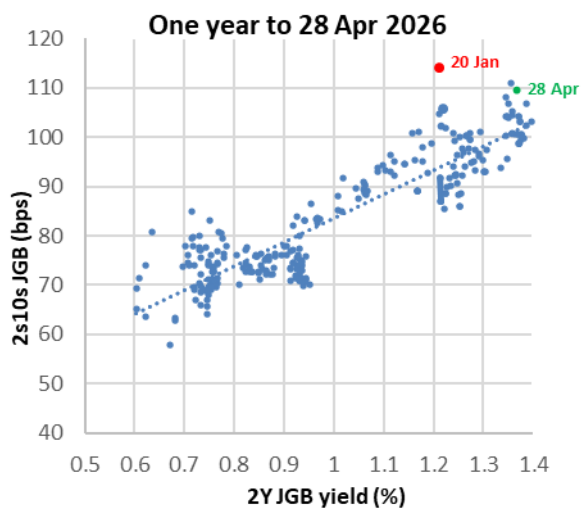
around SOFR+49bps, similar to 10Y UST swap spread at 44bps. Investors may want to stay patient waiting for better entry levels.



Source: Bloomberg, OCBC Group Research
^28 April 2026

- EUR rates.** Short-end bunds underperformed upon the notable increase in ECB’s measures of inflation expectations. Under ECB’s monthly survey of consumers, 1Y inflation expectation rose to 4.0% in March from 2.5% prior, and 3-year inflation expectation rose to 3.0% from 2.5% prior. While ECB is likely to keep key policy rates on hold this Thursday, we expect a 25bp hike at the June meeting. ECB policy response depends much on the intensity and the duration of the energy price shock, and on the pass-through of energy inflation onto the broader consumer price level and onto inflation expectations. While higher inflation expectation can potentially be self-fulfilling, this survey had shown elevated inflation expectation in the past which did not materialize. At this juncture, we do not expect an aggressive hiking cycle to kick in.
- JPY rates.** Short end JGB yields traded 2bps higher upon BoJ’s 6-3 split vote, before retracing lower as Ueda’s comments were not as hawkish as the split vote would have suggested. BoJ decided to keep its target for the o/n call rate unchanged at 0.75%, with three members preferring a 25bp hike. We had opined the conditions – namely another year of solid wage growth and continued proactive price setting behaviour among firms – had been met for a hike at the April meeting. Given the status quo decision, we push this expected 25bp hike to the June meeting. Thereafter, we maintain our call for another 25bp hike in Q4, which will then bring the policy rate to 1.25%. JPY OIS last priced a 66% chance of a 25bp hike at June meeting and a total of 46bps of hikes by year end. The 2s10s segment of the JGB curve is a tad steep compared to directionality, reflecting a mild risk premium in the price.

- BoJ decision.** BoJ revised downward fiscal 2026 GDP forecast to 0.5% from 1.0% as previously expected; revised upward fiscal 2026 inflation forecasts - CPI (less fresh food) and CPI (less fresh food and energy) to 2.8% and 2.6%, respectively, from 1.9% and 2.2%. BoJ opined “the economy is expected to continue growing moderately, albeit at a decelerated rate”; and higher oil prices are expected to “push up prices...with moves to pass on wage increases to selling prices continuing”. The central bank continues to see “labor market conditions are likely to remain tight despite the impact of the slowdown in the economy”, which keeps the bias firmly on the hawkish side, in our view. Reasons cited by the dissenters included upside risks to inflation under accommodative financial conditions, while price stability target had been achieved. Tamura opined the central bank should set the policy rate “as close to the neutral rate as possible”. In the outlook paragraph, “the Bank will continue to raise the policy interest rate and adjust the degree of monetary accommodation, in response to developments in economic activity and prices as well as financial conditions.”



Source: Bloomberg, OCBC Group Research

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