

Chart of the Day



The timing of the US debt ceiling resolution on June 1, and Washington’s punting of Gov’t shutdown risk on October 1, have become catalysts for the rapid rise of UST yields. According to Bloomberg, leveraged fund short positions on long-dated US Treasuries stand at record highs. With US rates reaching new YTD highs on nearly a daily basis, 10 and 30 year UST yields have risen close to 5% for the first time since before the GFC.

Contributing factors to the sharp rise in yields over the last four months include: **resilient US economic data, 6-7% budget deficits during an expansionary period, \$1 trillion of UST supply in Q3, and the Fed’s ongoing quantitative tightening (QT) policy.**

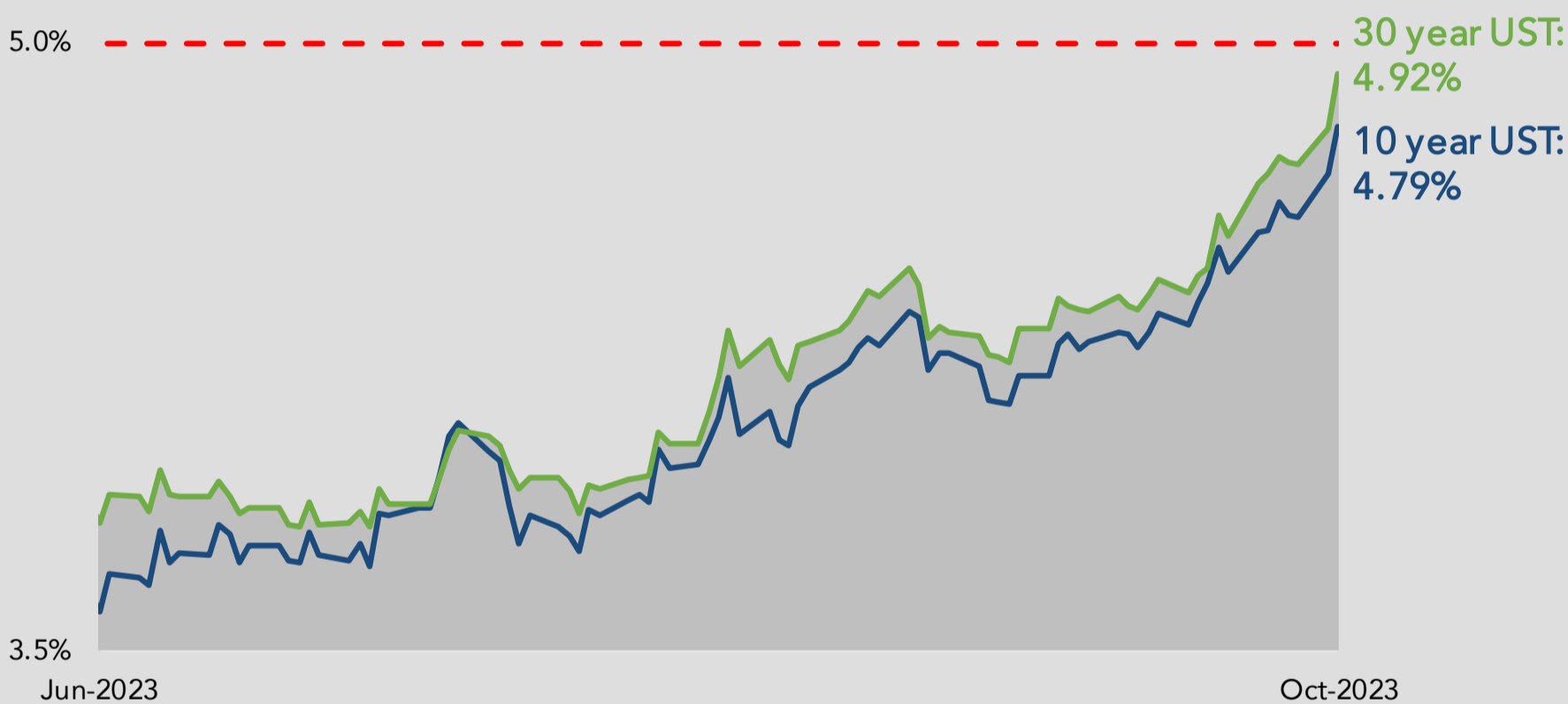
With US rates rising so quickly, the Fed risks losing control of the back end of the \$25 trillion US Treasury market, which in turn could have adverse implications for growth and risk assets (stocks, bonds, EM).

With financial markets now doing the tightening, the Fed’s current rate policy forecasts come into question - both the **one additional rate hike** they are forecasting for November-December, and the benign pace of just **two rate cuts** anticipated in 2024.

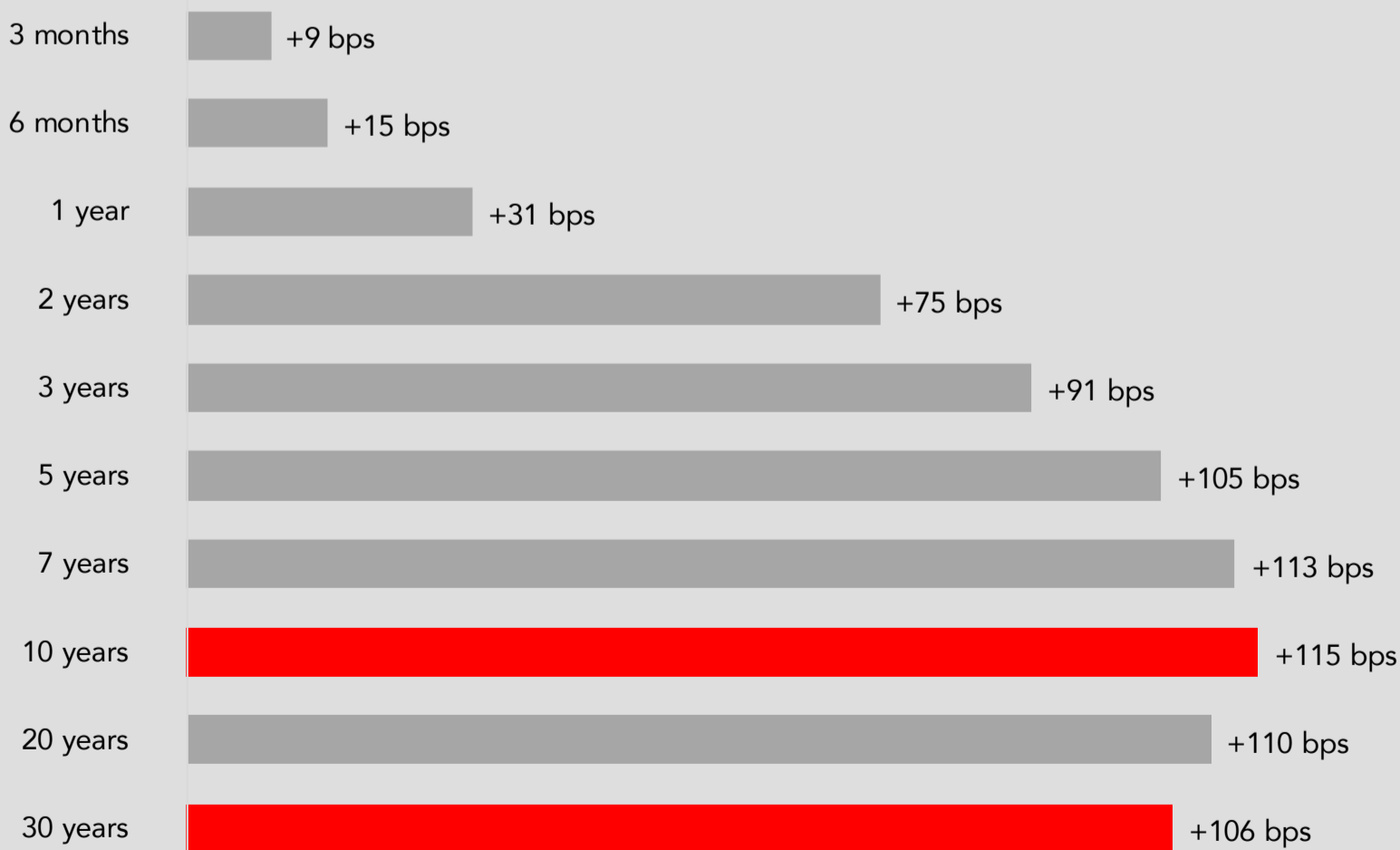
Historically, the first Fed interest rate cut occurs about 6-8 months after the last rate hike. **The more rates continue to rise, the more tenuous the consensus “higher for longer” thesis becomes.** The risk that something breaks - either the economy or markets - is also rising.

The bear market steepening in US rates since June, which is quite atypical this late in a Fed tightening cycle, has been reinvigorated as US 10 and 30 year yields rapidly approach the 5% threshold

10 year and 30 year UST yields since debt ceiling resolution on June 1



Change in UST rates since debt ceiling resolution on June 1



Source: (1-2) Bloomberg. Data as of October 3, 2023.

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“Macro stability isn’t everything, but without it, you have nothing.”