

Chart of the Day

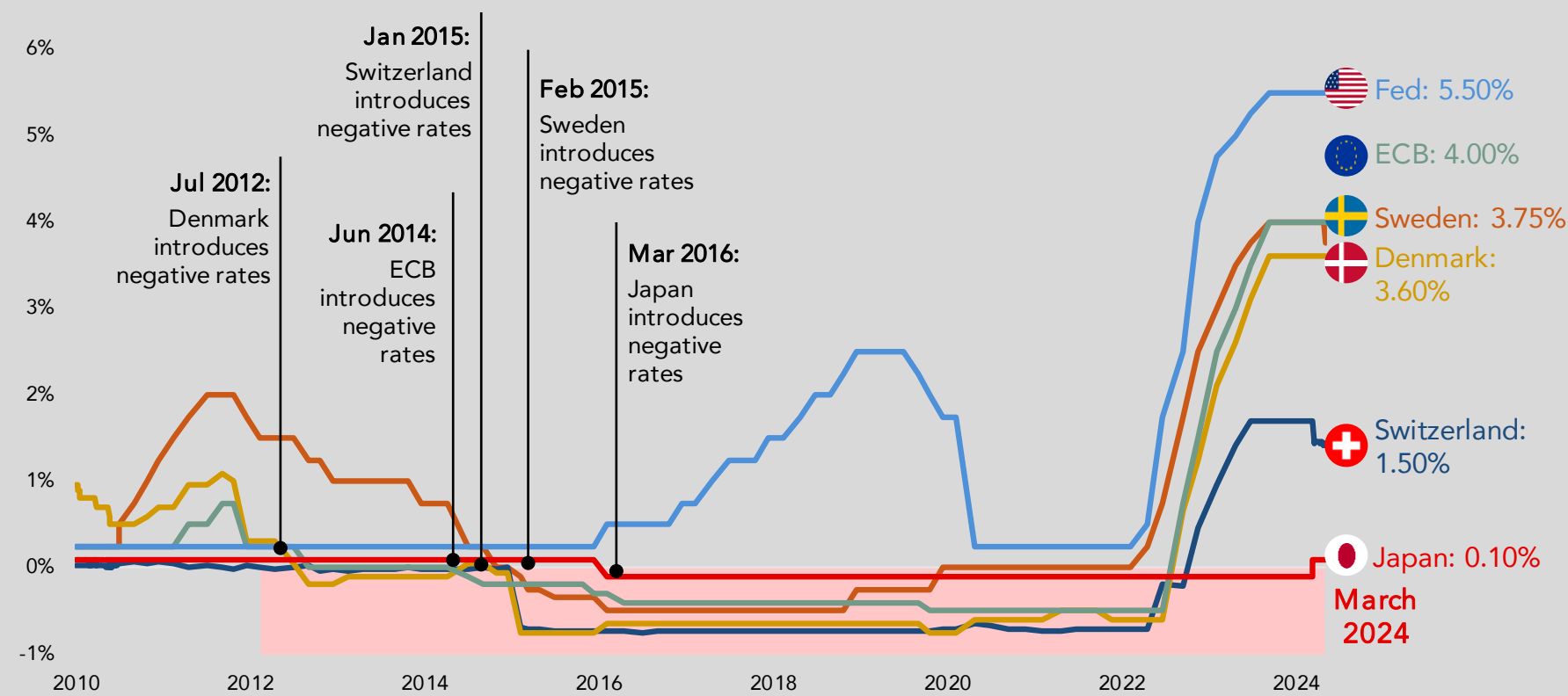
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The grand experiment of negative interest rate policy (NIRP) began in 2012 when Denmark became the first central bank to go negative in July of that year. Sweden was the first to exit NIRP in December 2019, though kept policy rates at 0% (ZIRP) until April 2022. It took a full decade for other G10 central banks to abandon the NIRP policy regime, led by the ECB in July 2023, Denmark and Switzerland in September 2023, and finally Japan in March 2024. Notably, the historic BOJ policy shift was multi-faceted in: (i) raising their policy rate band to 0%-0.1%; (ii) ending yield curve control (YCC), and (iii) announcing an end to ETF & REIT purchases, a gradual reduction in corporate bond purchases and a continuation of JGB buying (with tapering intent in future).

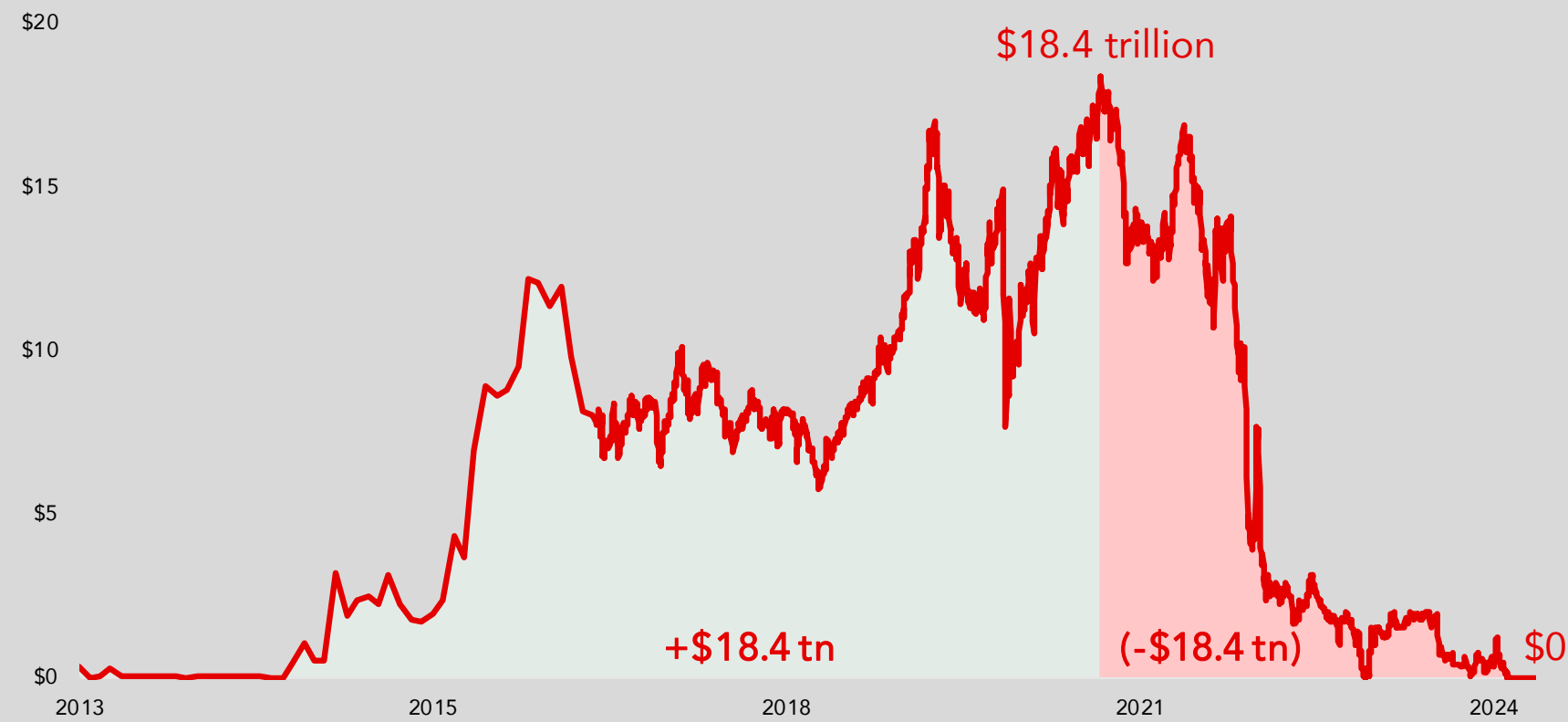
Central bank policy rates

Global Central Bank Negative Policy Rates Regime



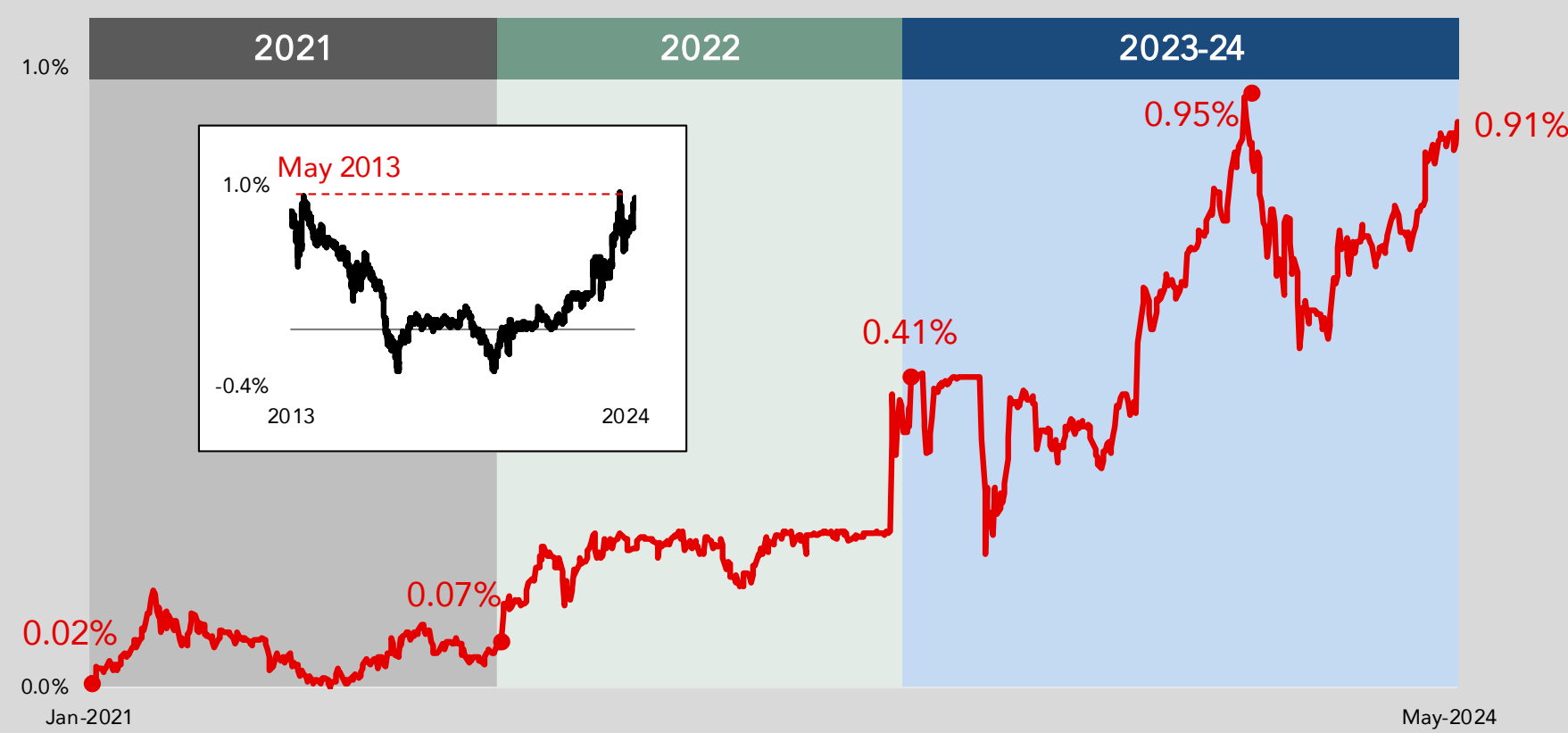
Global negative yielding debt peaked around \$18 trillion during the peak US-China trade wars and COVID crisis period, but has since declined to zero as global central banks pivot to a new era of global policy normalization.

Global aggregate negative yielding debt, market value, USD tn



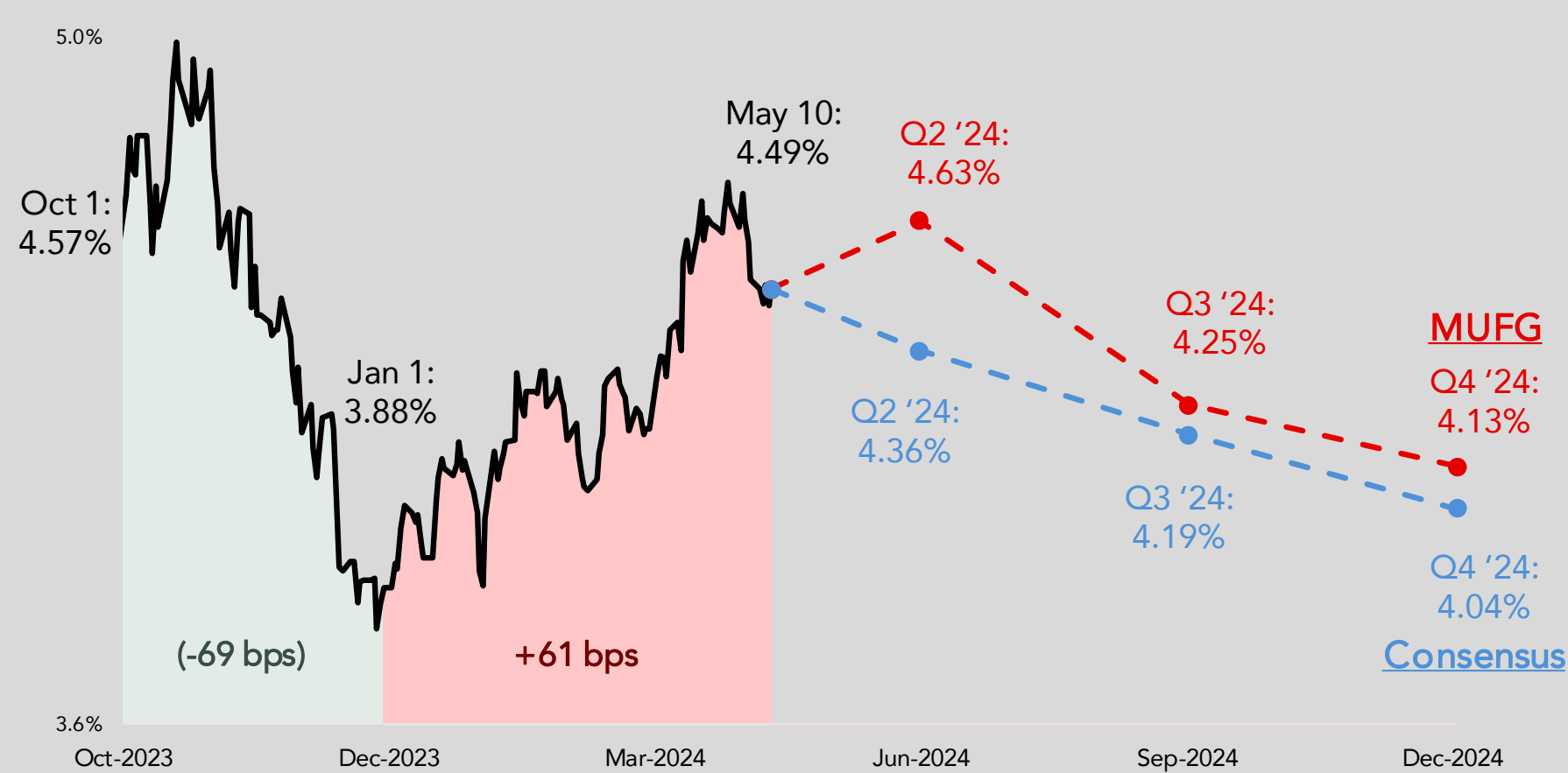
After a decade of policy suppression, Japanese Gov't Bond (JGB) yields began to normalize in 2022 with post-COVID inflation, and then again in 2023 as the BOJ incrementally expanded the permissible trading range of its YCC framework. Following the historic policy pivot in March, look for yields to move higher from here as: (i) the BOJ raises policy rates further (MUFG view: July and Q4); and (ii) the BOJ pivots toward a tapering of its JGB purchase program.

10 year JGB bond yield



MUFG's US Rates Strategist, George Goncalves is forecasting 10 year UST yields to resume their Q4 2023 rally and reach new cyclical lows by year-end as the Fed is likely to ease policy rates from currently restrictive levels.

10 year UST



Source: (1-4) Bloomberg. Data as of May 10, 2024. US is Fed Funds upper bound. ECB is deposit facility. Denmark is interest rate on certificates of deposit. Japan is unsecured overnight call rate upper bound. Switzerland is the overnight repo rate.

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"Macro stability isn't everything, but without it, you have nothing."