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US Rates Strategy Weekly August 7, 2026 Joseph Abate, US Rates Strategy Monty Gandhi, US Rates Strategy Troy Ludtka, US Economics joseph.abate@smbcnikko-si.com mgandhi@smbc-cm.com troy.ludtka@smbcnikko-si.com 1 212 893-1592 1 212 224-5114 1 212-224-5483 • The Treasury kept coupon auction sizes steady and maintained its “several quarter” commitment. We expect weekly bill issuance to hold steady through mid-September. Net bill supply is expected to increase by $250bn in Q4 with a lower year-end cash target of $850bn . 1 • A “plurality” of dealers favored steady daily repo investments from the Treasury, if it decides to invest its surplus cash in the repo market. • It may be easier to report more aggregate and detailed transaction-level data for bills given their deeper secondary market liquidity and less reliance on dealer intermediation. • Until Warsh gives the market a reaction function and a sense for what data he is watching, implied vol is likely to stay rich to realized. This may keep long-end buyers sidelined. • We examine a simple buying and selling auction strategy for the 10 and 30y bonds that has been successful more than half the time in the past year. • We are forecasting relatively modest July inflation prints of 0.1% m/m (3.5% y/y) for headline CPI and 0.18% m/m (2.6% y/y) for core CPI. Retail sales are expected to increase 0.1% m/m at the headline level and excluding autos. More Transparency The Inter Agency Working Group on Treasury market surveillance is considering expanding TRACE (trade reporting). In theory expanding TRACE reporting and increasing market transparency should improve market liquidity . With more sense of trading patterns, market markers might become bolder intermediaries – narrowing their bid/ask spreads, lowering their transactions costs, and stepping into the market more frequently to arb spreads. Treasury market liquidity has improved since the TRACE reporting was expanded, but some of this may reflect increased electronification. Currently, TRACE reports aggregate end-of-day data on trading volumes for all Treasury types . More detailed information on prices along with sectoral detail is only available for on-the-run securities (OTRs). While the OTR sector is liquid, deep and actively traded, it accounts for just 2% of outstanding Treasury debt. TRACE also reports transaction-level data. These record the transaction price, volume, time, and counterparty type. To preserve anonymity and prevent too much disclosure, the transactions are bucketed where the uppermost size is capped. Transactions data without this upper limit are released with a 6m lag. 1 The timing of the New Year’s holiday shifts social security payments from early January into December, lowering the year-end cash balance.

SMBC US Rates Strategy Weekly 2 The Treasury Borrowing Advisory Committee (TBAC) examined which types of Treasuries it might be possible to collect and report more data on. They looked at bills, off-the-runs, and TIPs. Of these, it is easiest to report more aggregate volume and detailed transaction-level data for bills . Daily trading volumes in the bill market are high and are not concentrated around particular events or dates (Figure 1). There also seems to be less sensitivity around disclosures. Money market funds are required to report their positions each month and individual funds (and stablecoins) often report their holdings at higher frequencies. Likewise, because bills are fungible and regularly re-opened, they are easier to substitute with similar issues, so their secondary market liquidity is less reliant on dealer intermediation and balance sheets. These characteristics likely mean that the bill market is less sensitive to an expansion in TRACE reporting . This is not the case in other markets. Trading in specific off-the-run CUSIPs is thin and positions in the TIPs market are concentrated. Likewise, TIPs trading is concentrated at month-end because of portfolio index rebalancing (Figure 2).

As a result, secondary market liquidity for these securities relies more heavily on dealer intermediation. Chaboud et al, examined the percentage of customer trading volume in the same security that occurs within 15m. 2 While the percentage of trading volume in a specific OTR occurring within 15m is near 60%, for off-the-runs or TIPs, this is less than 20%. In other words, it takes longer for a dealer to find an offsetting buyer/seller in these securities. As a result, increased reporting might make it harder for dealers to discreetly offset their buys/sales without tipping off the market . The premium of not knowing Uncertainty remains high in the bond market led by a new Fed chair whose reaction function is still unknown and an unresolved Iran situation. The Iran tail is two sided even as there is a recognition that there are no good options. On the Fed, until Warsh commits to some form of forward guidance or gives 2 See, “All-to-all trading in the US Treasury Market”, A. Chaboud, E. Correia Golay, C. Cox, M. Fleming, Y. Huh, F. Keane, K. Lee, K. Schwarz, C. Vega, and C. Windover, Federal Reserve Bank of New York Policy Review, February 2025. Figure 1: Bill trading volume ($bn) Figure 2 : TIPs trading volume ($bn) Source: Federal Reserve, SMBC Nikko Source: Federal Reserve, SMBC Nikko 0 50 100 150 200 250 300 350 Jan-18 Jan-20 Jan-22 Jan-24 Jan-26 0 5 10 15 20 25 30 35 40 45 50 Jan-18 Jan-20 Jan-22 Jan-24 Jan-26

SMBC US Rates Strategy Weekly 3 the market enough to understand his reaction function, implied vol is likely to stay elevated relative to realized vol. Elevated vol does its own damage to investor demand as it tips the balance in favor of taking less duration risk. Term premium remains near the upper end of the range post April 2025 (45-90 bps). A credible communication framework could compress vol and bring long-term buyers back. Setups into the refunding auctions With the refunding auctions next week, we discuss a simple mechanical auction setup that has worked over the last twelve months and since 2023. The rule is to sell half the position on the Friday before the auction, buy the full size at the auction itself, and then sell the remaining half on the Monday after. It is a straightforward attempt to capture the concession that builds into the takedown. Over the last twelve months, the strategy worked 58% of the time (Figure 5) in the 10y for an average gain of 2.6bp, and 67% (Figure 6) of the time in the 30y for an average gain of 1.7bp. The worst drawdown was 10bp for the 10y and 13bp for the 30y, both in February 2026. Figure 6 shows that there were two drawdowns greater than 10bp in the 30y. Extending the sample back to 2023 leaves both conclusions intact with the worst two drawdowns in the 10y at -17bp and -23bp (both in 2023). Figure 3: 1y5y implied vol Figure 4 : 10y term premium (NY Fed’s ACM) Source: Bloomberg, SMBC Nikko Source: Federal Reserve, SMBC Nikko 2 3 4 5 6 7 8 9 Jan-25 Jul-25 Jan-26 Jul-26 1y5y implied vol Realized vol, 21 day -0.5 -0.3 0.0 0.3 0.5 0.8 1.0 Feb-24 Aug-24 Feb-25 Aug-25 Feb-26 Aug-26

SMBC US Rates Strategy Weekly 4 Figure 5: 10y Figure 6 : 30y Source: Bloomberg, US Treasury, SMBC Nikko Source: Bloomberg, US Treasury, SMBC Nikko -15 -10 -5 0 5 10 15 20 Aug-25 Nov-25 Feb-26 May-26 -15 -10 -5 0 5 10 15 20 Aug-25 Nov-25 Feb-26 May-26

SMBC US Rates Strategy Weekly 5 Week ahead • Consumer Prices (Jul, Wed) : We are forecasting relatively modest July inflation prints of 0.1% m/m (3.5% y/y) for headline CPI and 0.18% m/m (2.6% y/y) for core CPI . Given the trajectory of oil prices and agricultural commodities in the month, we estimate that energy prices declined -1.1% m/m, while food costs increased 0.3% in the month. Shelter costs are estimated to have increased 0.2% m/m, while core CPI excluding shelter is forecasted to increase by just 0.16%. Used vehicle prices fell -0.7% in the month. Yet, prices as measured by the ISM indices suggest that inflationary pressures remain elevated despite an easing of Middle East tensions (Figure 7). Over the remainder of the year, we expect core CPI to trend lower due to housing market weakness and cooling real personal income, which historically have led consumer prices by 18- and 12-months respectively. • Retail Sales (Jul, Fri) : For July, we are forecasting modest gains in retail sales of just 0.1% for both the headline and ex autos components due to a -2.9% drop in gasoline prices and a -

1.2% decline in vehicle sales. Housing market weakness has broadly weighed on consumer spending and economic activity since rate hikes began four years ago. Excluding housing related spending, retail sales are moving higher (Figure 8). Figure 7: Composite ISM Prices (Index) and CPI ex shelter (% y/y) Figure 8 : Retail Sales ex housing-related items and housing-related spending ($ bn) Source: ISM, BEA, BLS, Haver, SMBC Nikko Source: Census, Haver, SMBC Nikko -4 -2 0 2 4 6 8 30 40 50 60 70 80 90 2000 2005 2010 2015 2020 2025 Composite ISM Prices CPI ex Shelter (%YoY, rs) 30 40 50 60 70 200 300 400 500 600 700 2000 2005 2010 2015 2020 2025 Retail Sales excl. Housing-Sensitive Items ($Billions) Housing-Sensitive Items* (rs, $Billions)

SMBC US Rates Strategy Weekly 6 Table 3: Economic indicator forecasts

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