

Nomura Global Insight

16 September 2005

US

- Yields stuck in a range
- Fed close to neutral
- Katrina will not blow the economy (far) off course

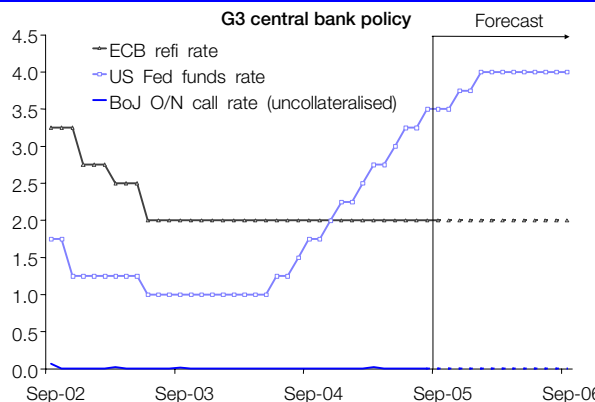
Eurozone

- EGBs – the pick of the bunch
- ECB will continue to sit on its hands
- No Merkel miracle for the German economy

Japan

- Yields to move higher across the curve
- An end to quantitative easing in sight
- Recovery remains on track

Monetary policy flat-lining



Source: US Federal Reserve, ECB, BoJ, Nomura

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Forecasts¹

Interest rate and bond yields

	Current	Q405	Q106	Q206	Q306	Q406
US						
Fed funds	3.50	3.75	4.00	4.00	4.00	4.00
2yr	3.87	4.05	4.15	4.35	4.25	4.25
10yr	4.18	4.25	4.40	4.55	4.50	4.45
30yr	4.48	4.55	4.65	4.80	4.75	4.70
EUROZONE						
ECB refi	2.00	2.00	2.00	2.00	2.00	2.00
2yr	2.24	2.30	2.40	2.40	2.30	2.15
10yr	3.10	3.20	3.30	3.30	3.15	2.90
30yr	3.60	3.70	3.80	3.80	3.60	3.35
JAPAN						
O/N call	0.00	0.00	0.00	0.00	0.00	0.10
2yr	0.18	0.13	0.18	0.30	0.35	0.40
10yr	1.37	1.40	1.55	1.70	1.75	1.85
30yr	2.44	2.55	2.65	2.75	2.80	2.85

FX

	Current	Q405	Q106	Q206	Q306	Q406
USD/JPY	110	105	105	105	110	115
EUR/JPY	135	132	134	130	132	136
EUR/USD	1.22	1.26	1.28	1.24	1.20	1.18

Real GDP (annual average)

	CY04	CY05	CY06
US	4.2%	3.4%	3.3%
EUROZONE	1.7%	1.3%	1.7%
JAPAN	2.7%	2.2%	2.4%

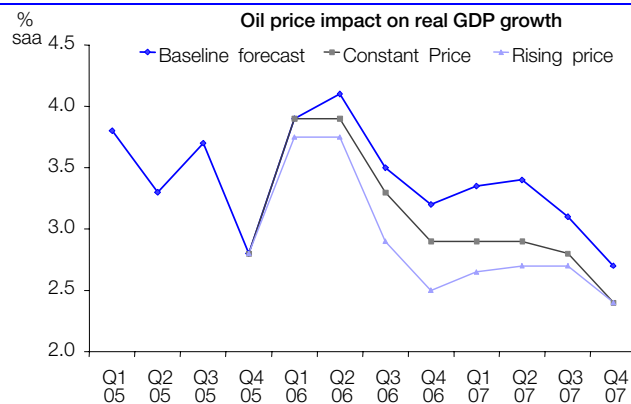
¹ All interest rate and FX forecasts are end of period values. Forecasts made 15 September 2005.

US

Before ...

Early third quarter indicators had largely validated expectations that the US economy had sailed through an early year “soft patch” and was on track for faster second half growth. After a sharp slowdown in production in Q2 that left inventories too lean, businesses stepped up production schedules early in the third quarter. With near record vehicle sales in July and signs of healthy spending on other consumer goods and services, final demand also appeared to be continuing along a strong growth trajectory. By late August it seemed likely that real GDP growth would top 4.5% for the first time in two years and would continue on an above-trend track through year-end. At the same time, however, the continuing rise in oil prices pointed toward somewhat slower growth in 2006. Echoing our interpretation of the available data, the staff economists at the Federal Reserve Board raised their “projection for economic growth over the remainder of 2005 ... [but] trimmed the growth rate forecast for 2006, reflecting the effects of higher energy prices, higher long-term interest rates, and the somewhat slower growth of productive capacity implied by the annual revisions to the national accounts.”

High oil prices subdue growth



Source: BEA; Nomura

... and after Hurricane Katrina

However, both the near term and longer-term outlook has changed noticeably since Hurricane Katrina battered the Gulf Coast states. Not only did the storm render a major American city virtually uninhabitable for an indefinite period, it also severely damaged American oil recovery and refining operations. Oil and refined product prices surged to new record levels in the days immediately after the storm and though they have returned to pre-storm levels, they remain high enough to make some forced cuts in discretionary spending quite likely. The impact on energy costs is not the only channel through which the storm's effect will be felt. Damage to major port facilities in the Mississippi delta has also disrupted the established distribution network of finished goods and raw materials. The Port of New Orleans has resumed skeletal operations but is not expected to be back to even 75% of its capacity before the end of the year. Though some international trade traffic has been diverted to other ports, the resulting delays, higher costs and resulting disruptions to the supply chain could reverberate throughout the economy for several months.

Outlook has become more uncertain ...

These and other effects of the storm have clouded the outlook for the remainder of this year and next. Nonetheless, we have incorporated a collection of “best guess” judgments about its impact on energy prices, consumer spending, government spending, the financial markets, and other factors. As a result, we now expect markedly slower GDP growth for the second half of 2005. Though the clean-up efforts now underway provide some offset to the initial cuts in demand and output, full-scale reconstruction activity is not likely to become the dominant marginal impact until early next year. Consequently, the faster growth we now foresee for the first half of 2006 arises from the rebuilding activity that presumably kicks into high gear in early next year.

... which could incline Fed to pause

We also believe that the much cloudier outlook will persuade the Federal Reserve to slow its tightening process. Though the futures markets still reflect a presumption that the Fed will continue without interruption to “remove” its accommodative policy at a “measured pace,” an application of the “risk management” principles that guide monetary policy point to the FOMC suspending the tightening cycle until a clearer picture emerges. Our forecast now reflects an expectation that the FOMC will maintain its current rate setting of 3.50% for a meeting or two but will have sufficient confidence about the outlook to resume its tightening process before the year ends. A quicker-than-expected restoration of refining capabilities and re-opening of commodity supply routes would probably persuade the Fed to resume its tightening cycle earlier and could quickly make up for any ground lost to the “pause.”

Second quarter numbers were pointing economy on a clear path ...

It now looks like growth in the second half, and particularly the third quarter, will be compositionally different than initially assumed. Namely, unusually weak inventory accumulation in the second quarter appeared to be setting the stage for strong inventory rebuilding in the third quarter while the historically unprecedented improvement in the trade balance in the second quarter appeared unsustainable and likely to quickly reverse itself. These were the two big stories for third quarter growth as other components of final demand appeared to be safely on trend. That was before initial July data began telling a different story.

... but the picture has changed

First and foremost, the trade data for July revealed an increase in exports and a decline in imports, contrary to expectations that the deficit would widen further. July exports, on a real basis, were 0.9% above their second quarter average, while July’s real imports were 0.5% below their second quarter average. Certainly August data can turn this situation around quickly but the reality is that trade is not likely to be the sizeable negative for third quarter growth that we supposed. Second, preliminary inventory data for July are not fully supportive of large rebuilding in the third quarter. Certainly we have seen a rebound in production and a healthier goods producing sector. But the scale of inventory rebuilding appears to be falling short of expectations. Manufacturing inventories in July rose 0.5% after being up roughly one tenth for the entire second quarter. However, wholesale inventories fell 0.1% in July – the first decline since August 2003, and were well below the average 0.5% monthly gain in the second quarter. Similarly, retail inventories fell 0.5%, due to extremely strong motor vehicle sales. Although dips in retail inventories are not unusual, the size of the fall – the largest since August 2003 – and its timing are not in sync with a third quarter inventory rebuilding theme. Furthermore, inventories in September should be drawn down sharply as a result of Hurricane Katrina. Many businesses are depleting existing stocks to keep production on line, as transportation bottlenecks stymie restocking efforts. All told, growth should be relatively robust in the current quarter but it will not come in the sectors initially envisioned.

Inflation pressures remain subdued

With the spike in late August/early September energy prices having quickly subsided, another step upward in the energy price spiral was averted. As it is, developments on the price front leading into Katrina offer encouraging evidence that core inflation remains well contained. At both the wholesale and retail level, core inflation showed no signs of accelerating, or any pass through of higher energy costs. If anything year over year inflation at the wholesale level was stabilizing if not subsiding. Despite the spike in the YoY rate to +2.8% in July, wholesale inflation looks to have peaked in the first quarter of 2005, with four of the subsequent five months registering lower annual inflation rates, including the most recent August reading. That same pattern is evident at the consumer level as well, where annual core inflation rose to 2.4% in March and has fallen to 2.1% throughout the summer months. This ability to absorb costs – offsetting higher energy prices through alternative resource savings or via reduced profit margins – remains an economic necessity in a world of global competitiveness and it is not likely to be lost any time soon.

Eurozone

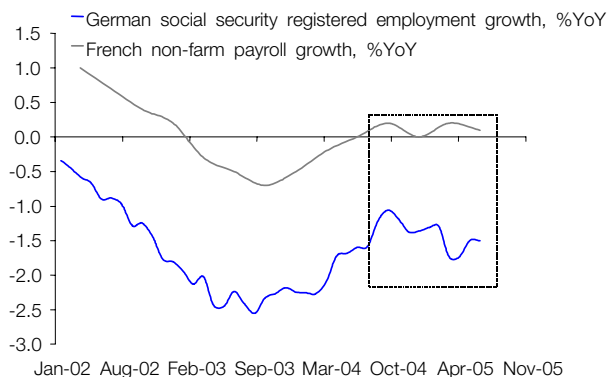
The neutral case for bonds

Our base case continues to assume the ECB will remain on hold until the end of our forecast horizon while we retain a broadly neutral stance on the outlook for bond yields over the same period. Although we expect the rally at the long-end to run out of steam, we are not convinced by a bearish case for bonds even as 10yr yields hover around record lows, and consequently look for yields at the long-end to be largely range-bound. At least from a fundamental perspective, we do not expect the catalyst for a sustained sell-off to materialise in an environment in which growth is mired below trend, core inflationary developments continue to be benign and a savings “glut” remains a key feature of the world economy.

A stop-start economy ...

Our outlook for the economy is for a period of “muddling through”: an ongoing pattern of stuttering growth, in which output struggles to reach and in particular sustain a potential rate of 2.0%YoY. The stop-start nature of the recovery has been a key feature of the Eurozone business cycle since 2002 and its assumed continuation underpins our expectation that the ECB will be forced to hold its fire. In our view – notwithstanding concerns regarding the strength of money and credit growth – a period of robust growth and confidence in its continuation so as to close the region’s sizeable output gap are necessary conditions for a tightening move. Our forecasts peg growth slowing to just 1.3% this year and picking-up only modestly to 1.7% in 2006. With risks to this outlook predominantly on the downside, we remain sceptical that business cycle developments will present the window of opportunity for policy tightening that the ECB seeks.

Labour market weakness: the bane of the Eurozone recovery



Source: Destatis; INSEE; Nomura

... and a benign inflation backdrop

Reinforcing this view is the outlook for inflation. For the moment, headline inflation continues to be boosted by rising oil prices. HICP rose to 2.2% in July and Eurostat’s final estimate for August showed it remained there last month too. The energy component of the HICP-basket is to blame, making a contribution of 0.94pp to the increase in August. However, while headline inflation may be slightly above the ECB’s definition of price stability and likely to hover there even into 2006, core inflationary developments continue to give no cause for concern. The core rate traded in a stable and narrow 1.4-1.6%YoY range for the first six months of the year. It then broke out on the downside to just 1.3%YoY in July and stayed at that rate in August. A look at a longer time-horizon shows that core inflation has been on a clear downward trend since mid-2002. Certainly ECB fears about second round price effects from the run up in oil prices have proved unfounded to date.

Wage growth remains contained ...

Underpinning these developments has been modest wage growth on the back of labour market weakness. The latest Eurozone labour cost data for the second quarter will be published on 21 September and national releases suggest a fall back towards cyclically low growth rates after the statistically inflated 3.1%YoY gain seen in Q1. A new series for German labour costs showed a

moderation to just a 0.8%YoY increase in Q2 compared with 1.2%YoY in Q1. Monthly wage gains in France have also declined, from an average of 2.8%YoY in Q1 to 2.1%YoY in Q2. These data merely confirm the raft of anecdotal evidence that suggest firms in the region remain in cost-cutting mode and that in the face of increasing competition from low wage-cost countries, workers and unions are simply not in a position to be extracting inflation-threatening pay increases.

... as job growth fails to pick-up

Admittedly, recent labour market data from the core of the Eurozone give cause for optimism that labour market deterioration has run its course. In France, the number of unemployed fell 58k over June and July having risen in the prior five months of the year, helping lower the unemployment rate to 9.9%. Similarly, registered unemployment in Germany fell by a cumulative 162k in the five months from April to August, lowering the unemployment rate on this measure from its March high of 12.0% to 11.6%. However, the level of unemployment in both countries gives some indication of the improvement yet required to remove substantial labour market slack. Furthermore, both data are distorted: the French numbers from the impact of government sponsored work initiatives and the German data by various statistical redefinitions following the Hartz reforms. As a result, these series are currently unreliable indicators of underlying trends and we prefer to focus on the level of regular employment as the most informative gauge of a labour market turn-around. Here the evidence is less convincing. French non-farm payrolls rose a mere 0.1%YoY in Q2, while the latest data showed that the number of full-time and regular part-time jobs in Germany was still falling at a rate of 1.5%YoY in June.

Merkel could be good for bonds

It is this development that suggests that the point from which a self-sustaining upswing could begin, in Germany in particular, has yet to be reached. Until employment begins to rise again, the income needed for stronger consumption and investment growth will remain elusive, as will the impetus necessary to sustain a genuine recovery in the Eurozone as a whole. Indeed, a risk for Germany is that the lifeline the economy has received from strong export growth comes to an end before the domestic economy begins to reap the longer-term benefits from supply-side reforms, which will likely be continued by whichever administration emerges from the 18 September general election. Certainly, slowing global growth next year is set to be another headwind that the Eurozone will have to confront and reinforces our call for downward pressure on bond yields to remain in play towards the end of our forecast horizon.

The risk case

Of course, an unwinding of the current oil price spike has the potential to create the necessary stimulus to growth that could take the economy onto a trajectory in which ECB tightening risks magnify. Liquidity in the Eurozone is "abundant", as the jump in M3 growth to a cyclical high of 7.9%YoY in July demonstrates, while the risk of house price bubbles in Spain, France and Ireland in particular remains a cause of concern. Were the economy to sustainably strengthen, these developments would provide the backdrop for initiating the modest tightening cycle the ECB craves. Even in such an environment though, the pressure on the long end would likely be modest in our view, reflecting largely an increase in real yields, with the curve flattening from the short-end.

Oil: the swing factor

Otherwise, with ECB policy remaining in the glacial slumber that we expect, the long-end looks set to continue to dominate the curve. Indeed, the risk case on the downside for growth – in particular high oil prices continuing to stymie a genuine recovery – is the more persuasive in our view, with futures markets giving little cause for hope that conditions in the oil market are set to improve significantly over our forecast horizon. Strong German orders and production data in recent months suggest industry there was coping valiantly through to August. But the more timely PMI surveys point to the Eurozone manufacturing sector flirting with recession, while marked declines in the most recent IFO current conditions index and the Banque de France's business survey underscore the potential for further disappointment on the growth front. In this environment, while the Bund rally may finally be meeting resistance, we feel comfortable not switching into the bond bearish camp.

Japan

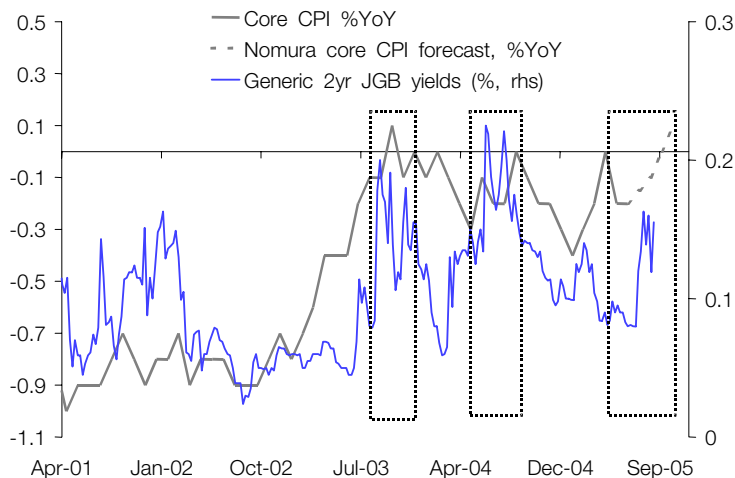
Yields on the up...

The bias for JGB yields on a 12m horizon is firmly on the upside. This recovery appears genuinely different from the false dawns of the past decade, the BoJ is hinting that the end of quantitative easing is on the horizon and with USD/JPY well within MoF's comfort zone and the Nikkei near a 4-year high, market developments appear unlikely to derail the upswing.

...as BoJ hints at a change in policy...

Debate over the future course of BoJ policy will leave the short end more volatile than it has been at any time since the summer of 2004. The BoJ's criteria for a change in policy include the core CPI "registering zero percent or above...over a few months". We currently expect that core CPI will turn positive in October 2005, when electricity and gas prices are scheduled to be hiked. Secondly, the bank needs to be convinced that this situation will endure. This should be indicated by positive core CPI forecasts for FY06 from the majority of Board members in the BoJ's semi-annual Outlook for Economic Activity and Prices, due for publication at the end of October. In its September monthly report the BoJ upgraded its view of the outlook for the third consecutive month, with the deflationary environment finally forecast to come to an end. The report noted, "the YoY rate of change in consumer prices is projected to be zero or a slight increase toward the end of the year". Furthermore, a number of Board members have been very positive on the economy in recent weeks, noting that the conditions for an end to deflation are almost in place.

CPI set to turn positive in late 2005



Source: MIAC, Nomura

We expect that the BoJ will want to see positive core CPI readings for at least two or three months, taking the Board into next year before it actively starts to reduce the current account balance target. With a great deal of uncertainty about the exact process of how the BoJ will extricate itself from the current policy, short-term rates will be volatile. We forecast that 2yr yields will rise to around 40bp on a 12m horizon. We expect that yields will be little changed on a 3m view but see scope for investors to push rates above this level in the short-term as the market gets ahead of itself, with regard to expectations of a rapid exit from quantitative easing. While short-term rates will rise we expect that long-term rates will rise more giving the curve a modest steepening bias on a 12m horizon.

...against the backdrop of an improving economy...

The scale of the upward revision to Q2 GDP was certainly a surprise. Indeed, economic activity expanded almost 1.9%HoH in the first half of the calendar year. Although the July data, reported at the end of August, were generally weak we see this as a reaction to the rapid pace of growth in H1, rather than the start of a period of weakness. Despite the lacklustre output data for July,

manufacturers are upbeat about the production outlook in coming months with the advance forecasts for both August and September at 2.3%MoM. Furthermore, although the headline PMI index dropped in August, the output sub-index rose 56.3. Orders also slipped but are still at the relatively high level of 54.9. The sub-index for new export orders remains relatively low, suggesting that much of the improvement is domestically driven.

... led by robust capex growth...

Capital expenditure has been a key driver of recent economic developments and we expect that it will retain its leading role in the current upswing². Q2 capex growth was revised up from 2.2% saar to 3.6% saar and most surveys point to continued strong growth, most notably the Q2 Tankan. Most surveys of annual capex demand were taken earlier in the year when the outlook for the economy was less clear and consequently we expect that they may prove conservative. Furthermore, whilst the backlog of orders may not appear large by historical standards, production capacity has been shrinking for much of the decade and the backlog relative to capacity is at its largest since the early 1990s. As such it appears that supply constraints are holding capex back and that demand should remain robust for some time. Against a backdrop of rising domestic demand and strong profitability the outlook for the corporate sector remains rosy. Further encouragement can be derived from the fact that the inventory adjustment process in the high-tech sector now looks to be drawing to an end, as the BoJ noted in its September monthly report. We believe that capex growth is likely to prove sustainable as firms move from an environment of concentrating on reducing their liabilities to replacing and upgrading existing facilities.

In addition, bank lending, adjusted for special factors, actually rose in YoY terms for the first time since such statistics were released in October 1999. This is an indication that the period of aggressive restructuring in the corporate sector is drawing to a close, allowing firms to concentrate on future plans rather than fixing the problems of the past.

... ably supported by rising consumption

The positive developments in the business sector are finally flowing into other sectors of the economy. The consumer has been the Achilles heel of recent recoveries, leaving the economy dependent on investment and external demand. However, the green shoots of recovery in the consumer sector appear increasingly robust. Incomes are now rising in year on year terms and as corporates become increasingly concerned about securing and retaining staff it seems likely that bonus payments will continue to rise. Wages have increased in year on year terms every month so far this year bar one, having been almost permanently declining since early 2001. In addition, as unemployment drops, firms are looking towards a period where there may be a shortage of workers and are starting to increase full-time payrolls, at the expense of part-timers. This improvement in the quality of hiring should inspire greater confidence in consumers. Full-time staff are better paid with better benefits as well. The effects of the turn-around in the income environment are clear to see. Private consumption rose 0.6%QoQ in Q2, following a robust 1.2%QoQ rise in Q1.

Koizumi victory unlikely to have major impact

The equity markets have rallied to 4-year highs in the aftermath of the election. However, we see relatively little impact on the macro economy from the LDP's landslide victory. The postal privatisation bills will be pushed through the Diet, but Koizumi appears short of ideas on other fronts. In addition, he appears determined to retire at the end of his term as party leader in September 2006. While a rise in the consumption tax is in the offing, Koizumi has made it clear that it will not happen on his watch. We have always maintained that the seeds of the current recovery were sewn in the private sector, with relatively little contribution from government policy. The best that can be said is that the government appears unlikely to take any major actions that will derail the current recovery.

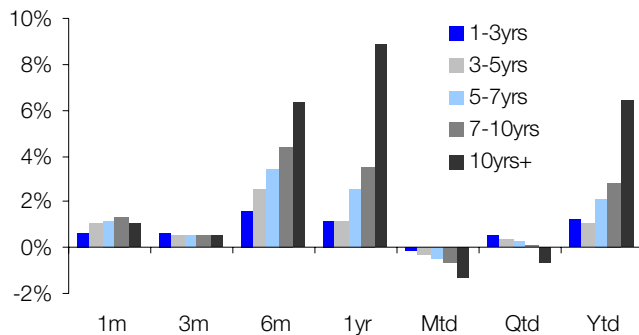
² For more details please see the September Japan Economic Monthly – focus feature 4 “Is a capex boom on its way?”

US

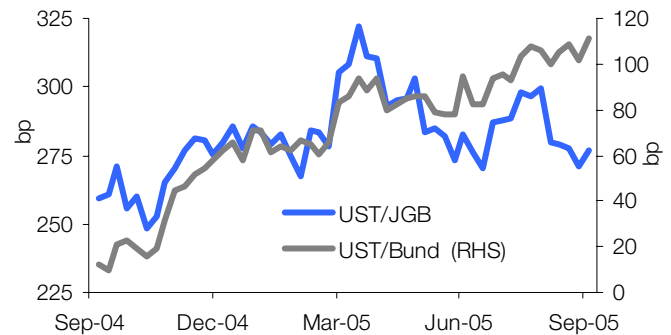
Whilst we see the FOMC as likely to pause in September, economic developments should allow the Fed to resume pushing rates higher until the funds rate hits 4% early next year. With inflationary pressures remaining subdued and growth close to trend we see no need for the Fed to tighten further, with 4% comfortably in the neutral zone. We would expect to see 2yr yields rise modestly through the first half of 2006, peaking mid-year as growth tops out and expectations of the future course of rates become less certain. We expect that long-term rates will remain low by historical standards, trading

in a 4.0% to 4.5% range. Large corporate fund surpluses, the global investment-savings imbalance and aging populations are likely to remain part of the backdrop for a considerable time yet. We look for the curve to remain little changed through this period with the 2x10s spread ranging between 20-40bp. With growth sliding below trend at the back end of 2006, we expect that yields across the curve will start to drop as expectations of policy easing build.

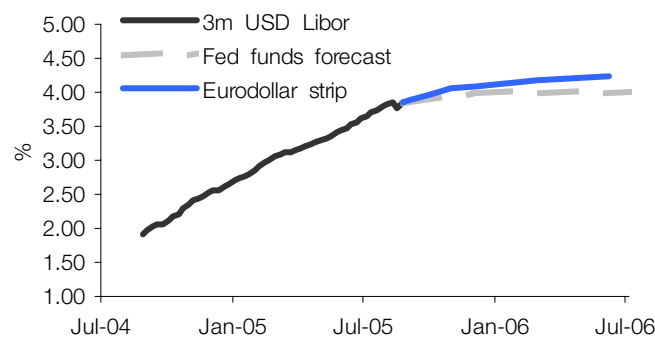
US Treasuries return attribution



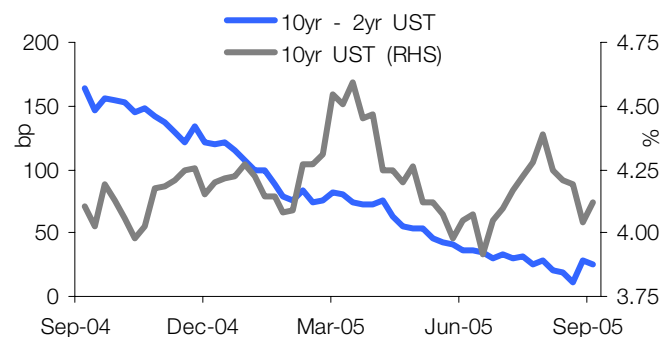
10yr cross market spread



3mth Libor and forecasts



10yr Treasury yield and yield curve



Interest rate forecasts

	Current	Q405	Q106	Q206	Q306	Q406
Fed funds	3.50	3.75	4.00	4.00	4.00	4.00
2yr	3.87	4.05	4.15	4.35	4.25	4.25
10yr	4.18	4.25	4.40	4.55	4.50	4.45
30yr	4.48	4.55	4.65	4.80	4.75	4.70

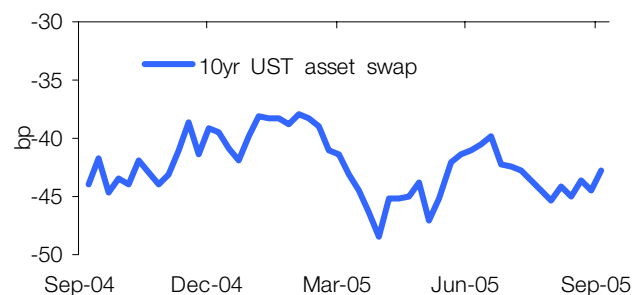
Spread vs Germany (bp, ann)

	Current	Q405	Q106	Q206	Q306	Q406
Fed funds	150	175	200	200	200	200
2yr	176	180	175	195	195	210
10yr	109	105	110	125	135	155
30yr	86	85	85	100	115	135

FX history and forecasts

	Current	Q405	Q106	Q206	Q306	Q406
\$/¥	110	105	105	105	110	115
€/§	1.22	1.26	1.28	1.24	1.20	1.18

10yr UST asset swap



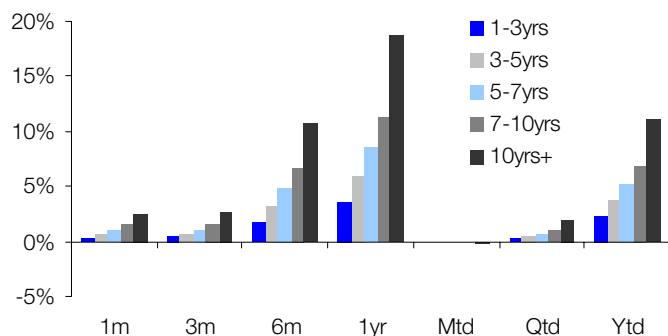
Forecasts made on 15 September 2005. Historical data are latest available at time of forecasts. 1yr return attributions are from 15 September 2004 to latest available date. Sources: all Bloomberg, Nomura.

Eurozone

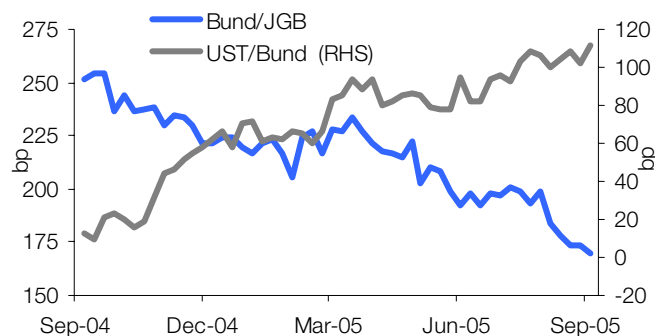
We see little change in the economic outlook for the euro area over the forecast horizon. Market expectations of a hike may build in H1 2006, pushing yields modestly higher, but we expect growth dynamics will deny the ECB an opportunity to raise rates. At the tail end of 2006 we see global growth weakening. With domestic demand remaining sluggish, particularly in Germany, we see the euro area business cycle as being the most exposed of the G3 to such a slow down.

In this environment we expect EGBs to outperform USTs and JGBs over the forecast horizon. With monetary policy inertia anchoring short-term yields, we look for the long end to continue to be the dominant factor in shaping the curve. Towards the end of the forecast horizon, we see the risk of further curve flattening as growth momentum wanes. The 30yr sector should continue to benefit from the rising demand for longer-dated assets.

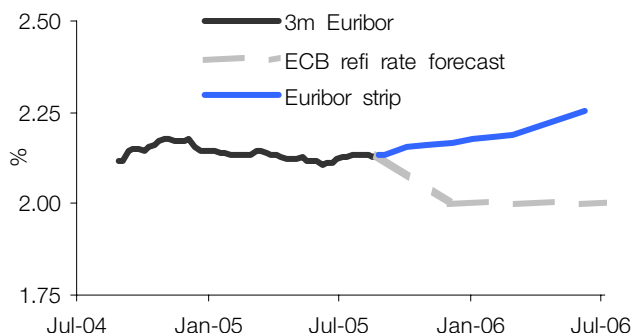
Euro governments return attribution



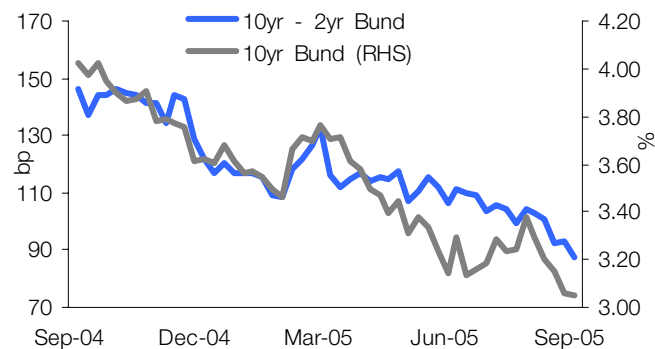
10yr cross market spread



3mth Libor and forecasts



10yr Bund yield and yield curve



Interest rate forecasts

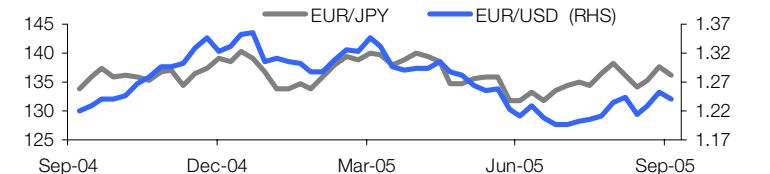
	Current	Q405	Q106	Q206	Q306	Q406
ECB refi	2.00	2.00	2.00	2.00	2.00	2.00
2yr	2.24	2.30	2.40	2.40	2.30	2.15
10yr	3.10	3.20	3.30	3.30	3.15	2.90
30yr	3.60	3.70	3.80	3.80	3.60	3.35

Spread vs US (bp, ann)

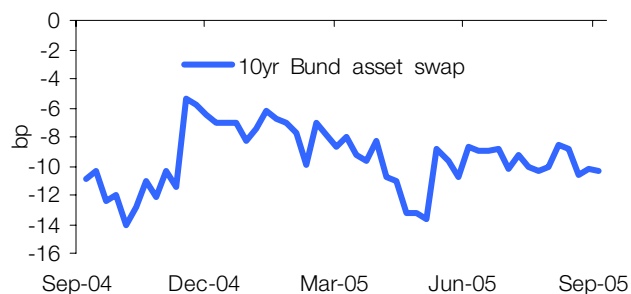
	Current	Q405	Q106	Q206	Q306	Q406
ECB refi	-150	-175	-200	-200	-200	-200
2yr	-176	-180	-175	-195	-195	-210
10yr	-109	-105	-110	-125	-135	-155
30yr	-86	-85	-85	-100	-115	-135

FX history and forecasts

	Current	Q405	Q106	Q206	Q306	Q406
€/¥	135	132	134	130	132	136
€/£	1.22	1.26	1.28	1.24	1.20	1.18



10yr Bund asset swap



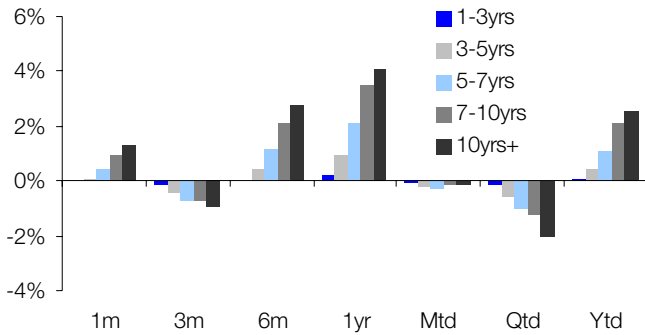
Forecasts made on 15 September 2005. Historical data are latest available at time of forecasts. 1yr return attributions are from 15 September 2004 to latest available date. Sources: all Bloomberg, Nomura.

Japan

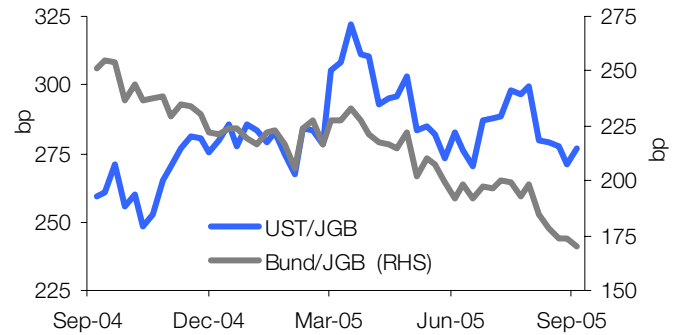
With the economic recovery looking increasingly sustainable relative to past cyclical upswings, we believe the bias for JGB yields is firmly on the upside. Fresh buying incentives – a sharp fall in USD/JPY below 100, a plunge in the Nikkei and/or BoJ easing – are unlikely to emerge. Institutional investors, particularly city banks, appear more inclined to chase foreign bonds than domestic paper at least until 2yr, 5yr and 10yr JGB yields back up closer to 0.2%, 0.8% and 1.5%, respectively. We expect that the JGB market will become more volatile as the BoJ edges toward

abandoning quantitative easing in favour of an interest rate targeting regime. Selling pressure is likely to intensify towards year-end as the CPI turns positive and the recovery in private demand gathers momentum, led by capex. Should the recent rise in the equity market be sustained it will add to the pressure on JGBs. On a 12m horizon, we expect that the 2x10s curve should bear steepen modestly, with 10yr yields rising towards 1.75%.

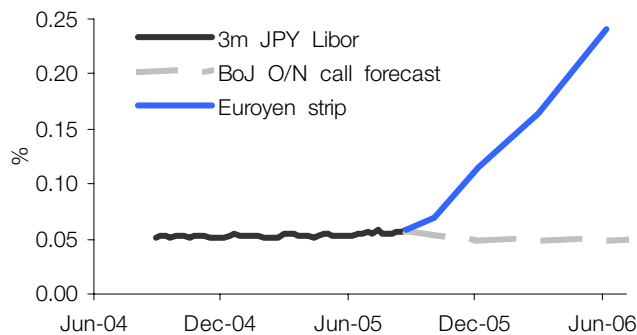
JGBs return attribution



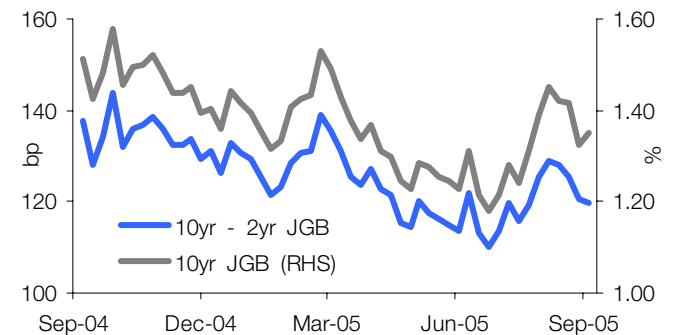
10yr cross market spread



3mth Libor and forecasts



10yr JGB yield and yield curve



Interest rate forecasts

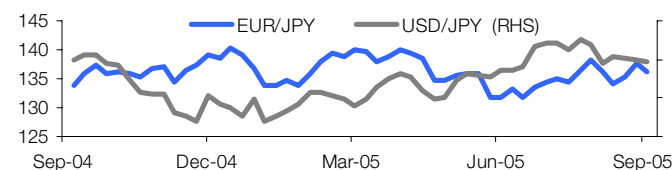
	Current	Q405	Q106	Q206	Q306	Q406
O/N call	0.00	0.00	0.00	0.00	0.00	0.10
2yr	0.18	0.13	0.18	0.30	0.35	0.40
10yr	1.37	1.40	1.55	1.70	1.75	1.85
30yr	2.44	2.55	2.65	2.75	2.80	2.85

Spread vs US (bp)

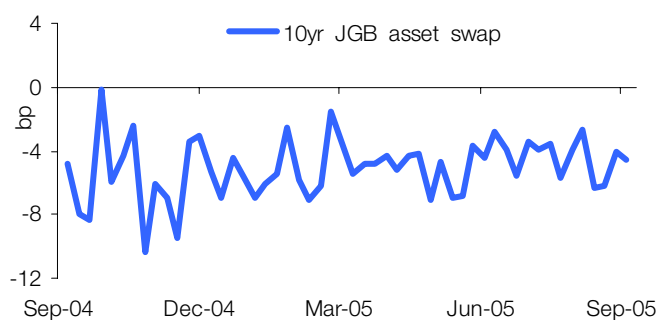
	Current	Q405	Q106	Q206	Q306	Q406
O/N call	-350	-375	-400	-400	-400	-390
2yr	-382	-397	-397	-405	-390	-385
10yr	-282	-285	-285	-285	-275	-260
30yr	-202	-200	-200	-205	-195	-185

FX history and forecasts

	Current	Q405	Q106	Q206	Q306	Q406
\$/¥	110	105	105	105	110	115
€/¥	135	132	134	130	132	136



10yr JGB asset swap



Forecasts made on 15 September 2005. Historical data are latest available at time of forecasts. 1yr return attributions are from 15 September 2004 to latest available date. Sources: all Bloomberg, Nomura.

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