

Pavilion's interest rate views for Macrovoices

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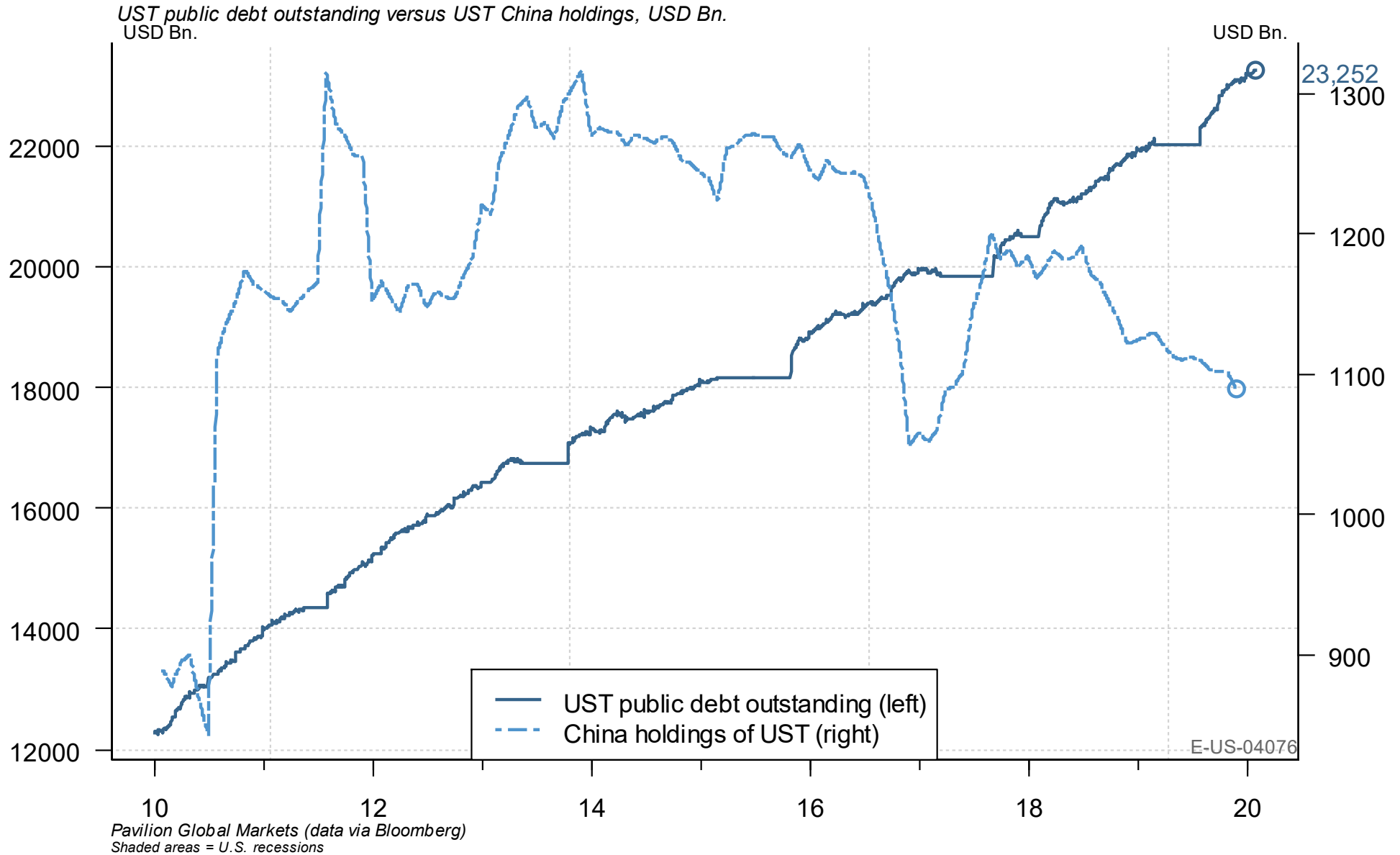
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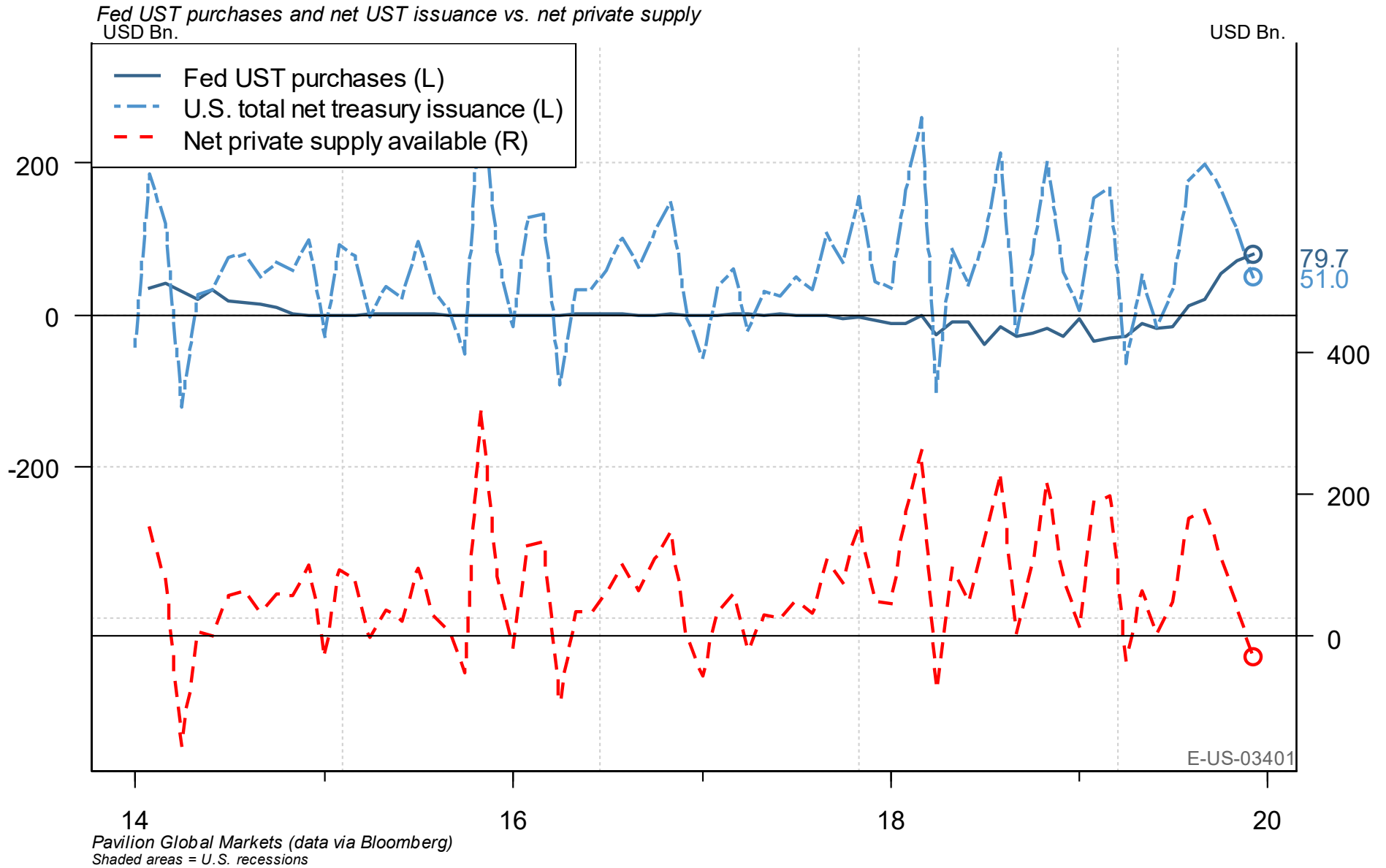
Pavilion Global Markets
February 2020

PAVILION
Global Markets

Two Factors: Too Simple



The Fed is Back



Estimated private supply of safe assets

Estimated net private supply of UST and MBS, USD Bn.

UST & MBS Supply, USD Bn	2020	2021
Budget deficit (1)	1,050	1,100
Net T-Bill Issuance (2)	350	400
Net Coupon Issuance	700	700
Fed will take T-Bills (3)	300	-
Fed will take Coupons	150	150
Net issuance less Fed	600	950

Pavilion Global Markets (data via Federal Reserve, UST, SIFMA, MBA, Pavilion estimates)

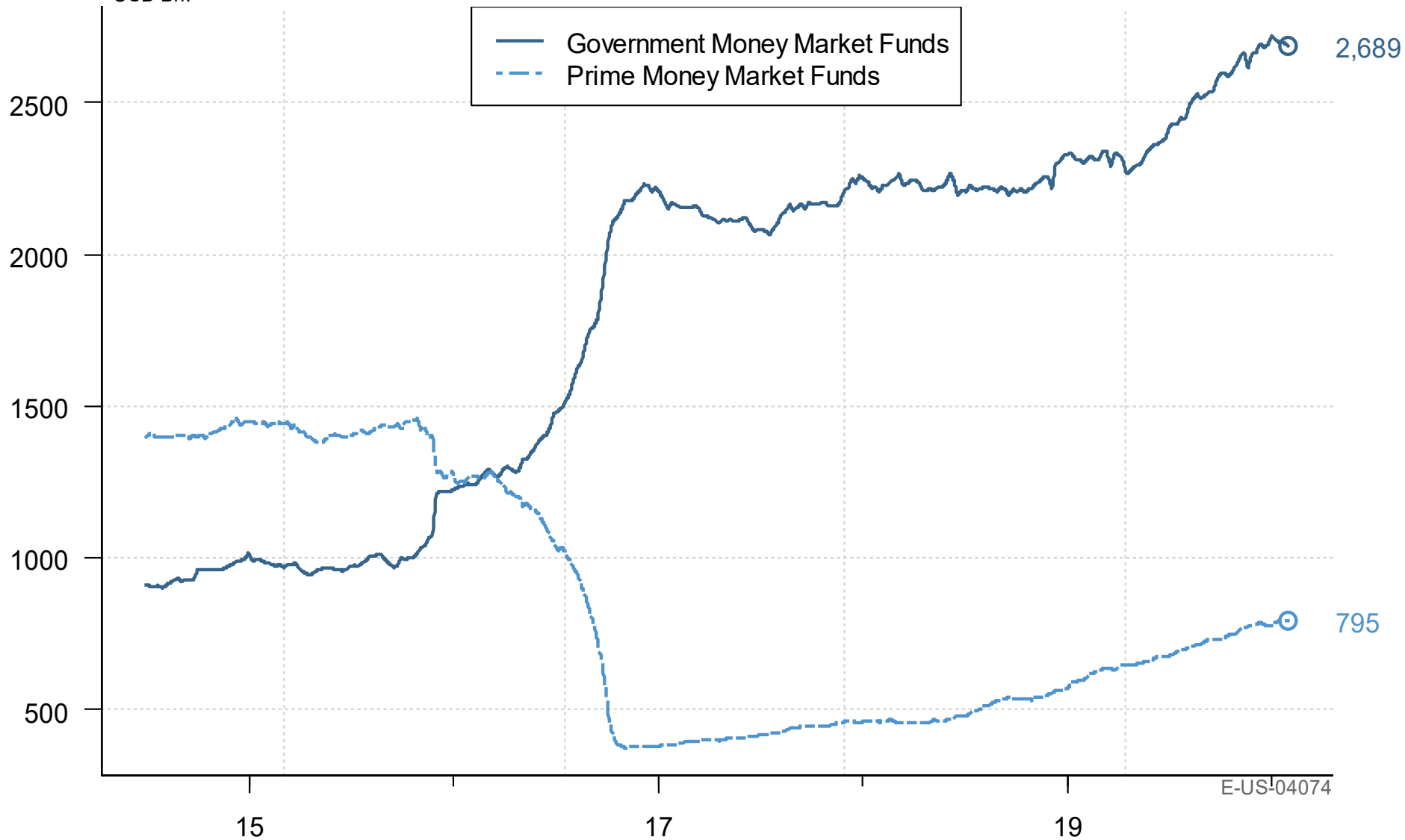
(1) UST projections

(2) Annualized TBAC suggested issuance mix for Q1 assuming 400B TGA cash

(3) Assuming T-bill purchases end in May, and 120B of MBS runoff

Money market fund growth

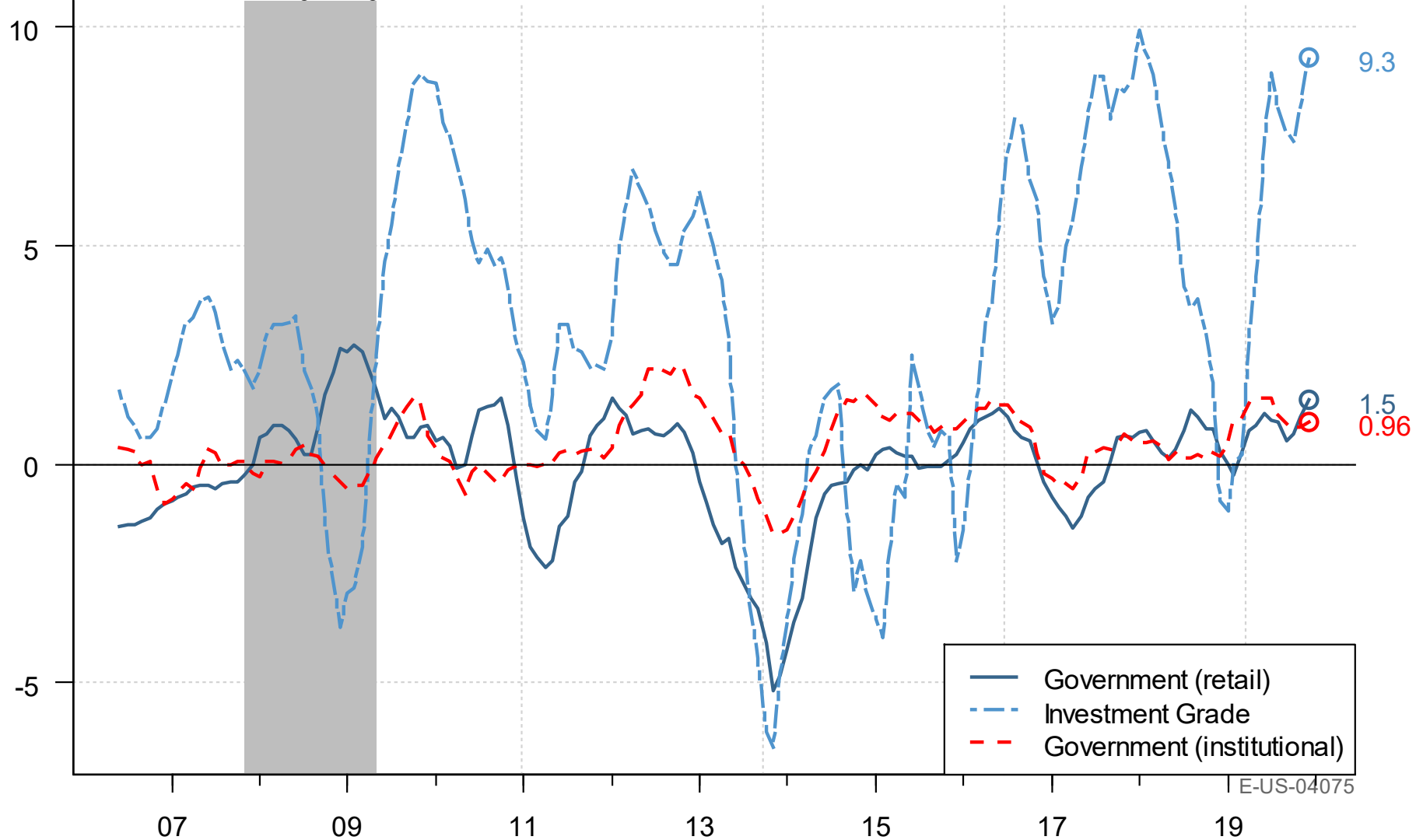
Government MMF and Prime MMF total net assets
USD Bn.



Pavilion Global Markets (ICI data via Bloomberg)
Shaded areas = U.S. recessions

Treasury and IG bond demand flows will remain solid

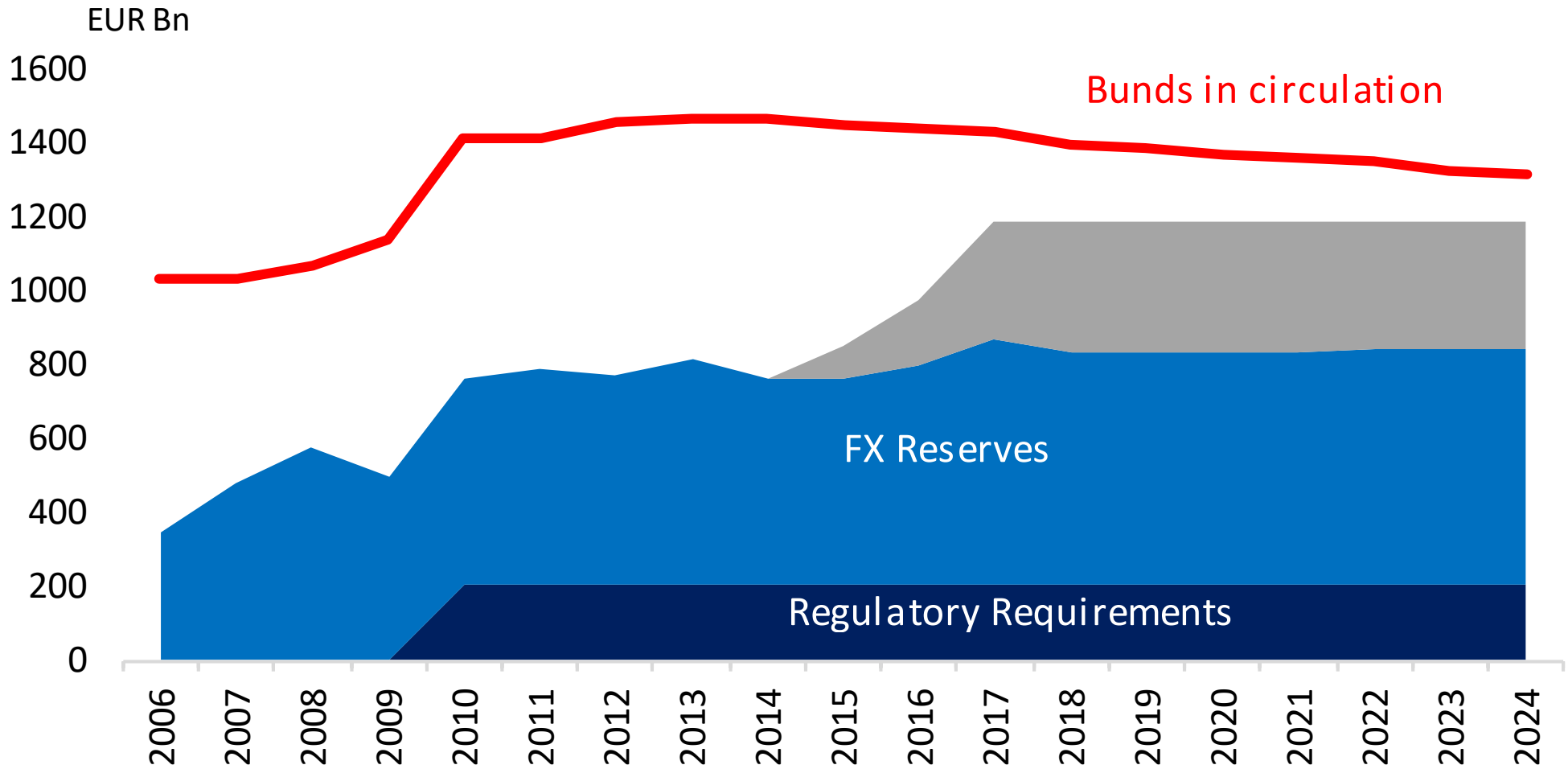
Net new institutional bond mutual fund cash flows for select fund types
Net cash flow, 6m rolling average, USD billions



Pavilion Global Markets (ICI data via Bloomberg)
Shaded areas = U.S. recessions

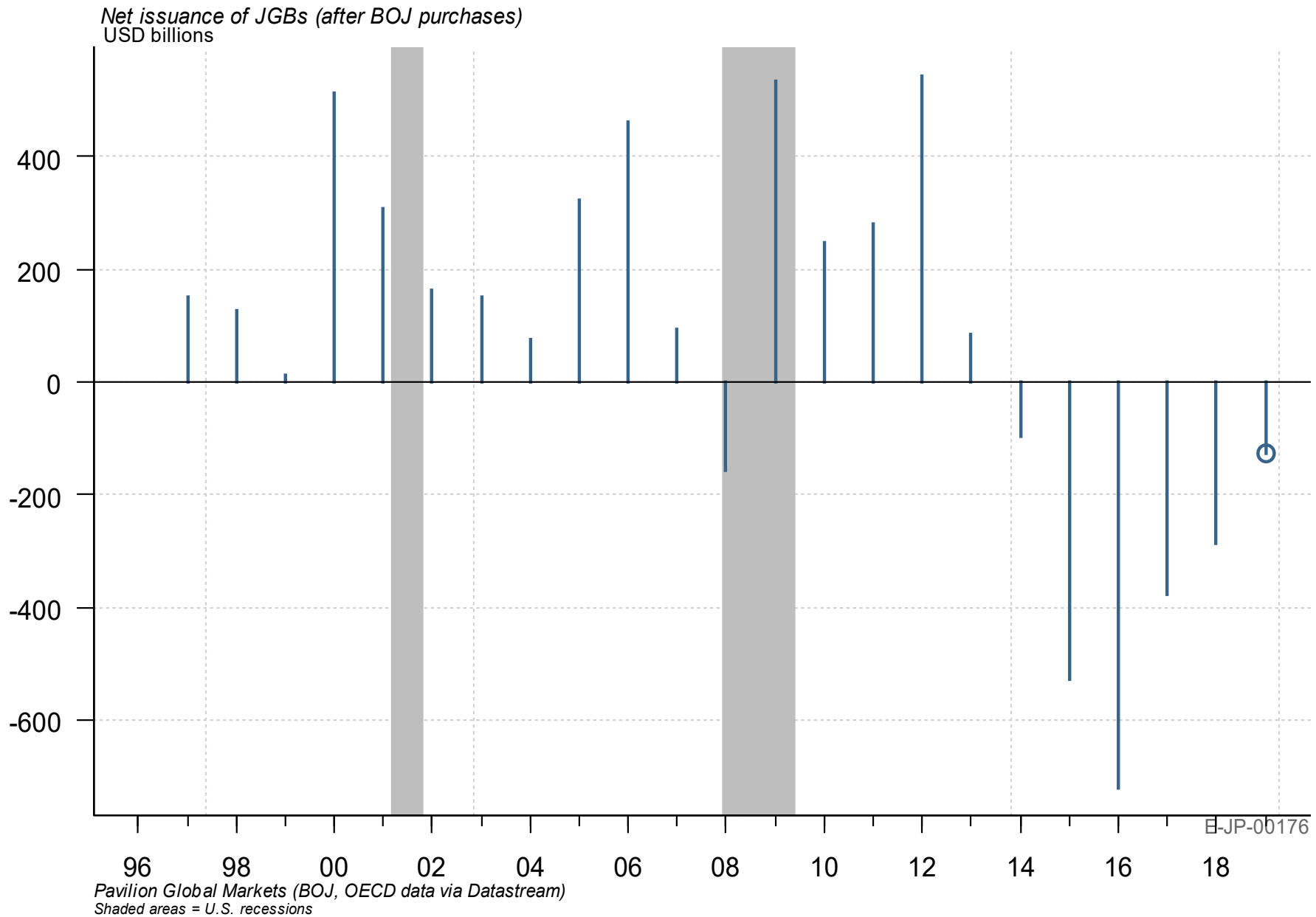
Declining bonds in circulation

Holders of German bunds, EUR bn



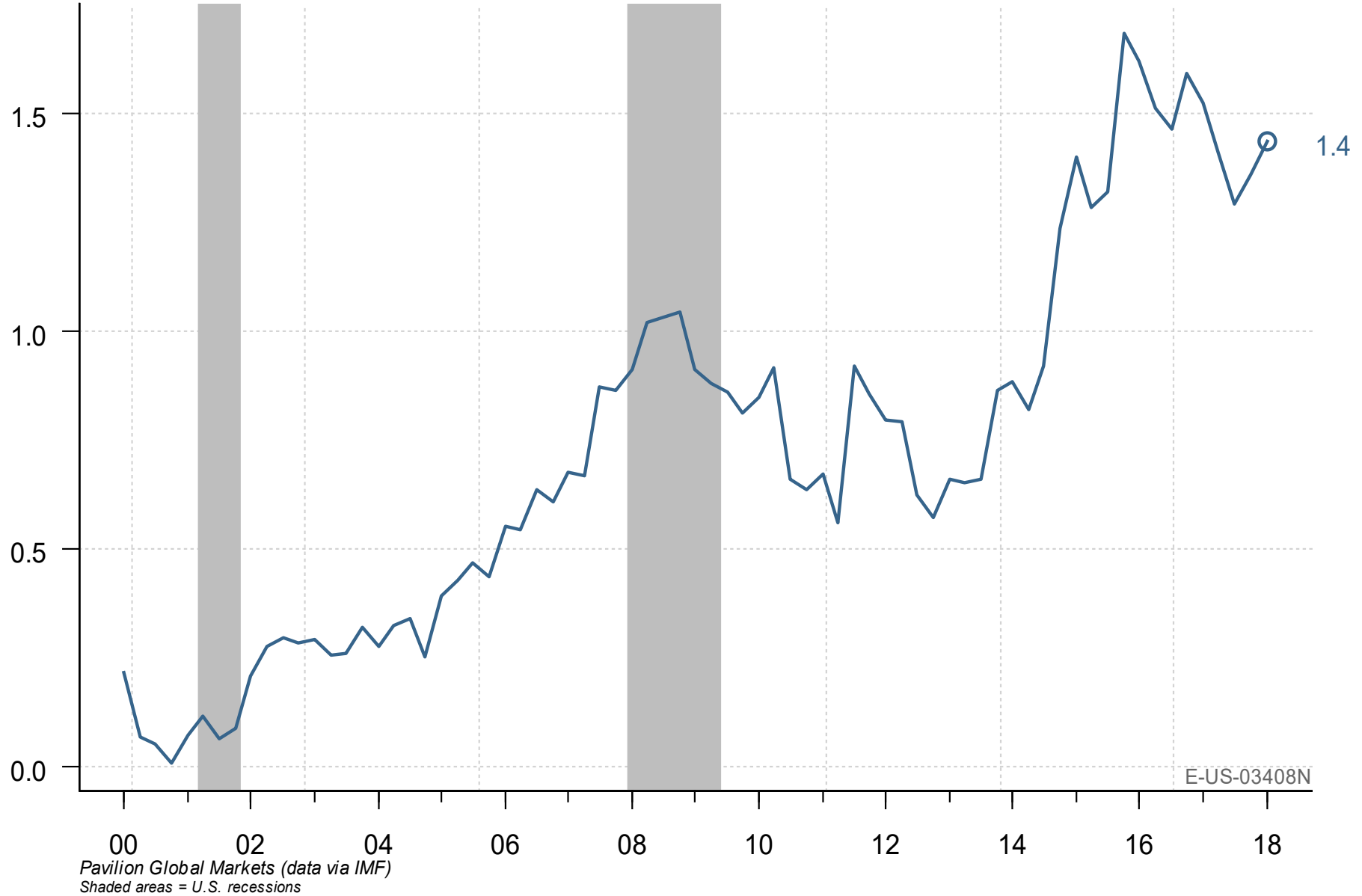
Pavilion Global Markets (data via Union Investment)

With BOJ purchases, net issuance is sharply negative

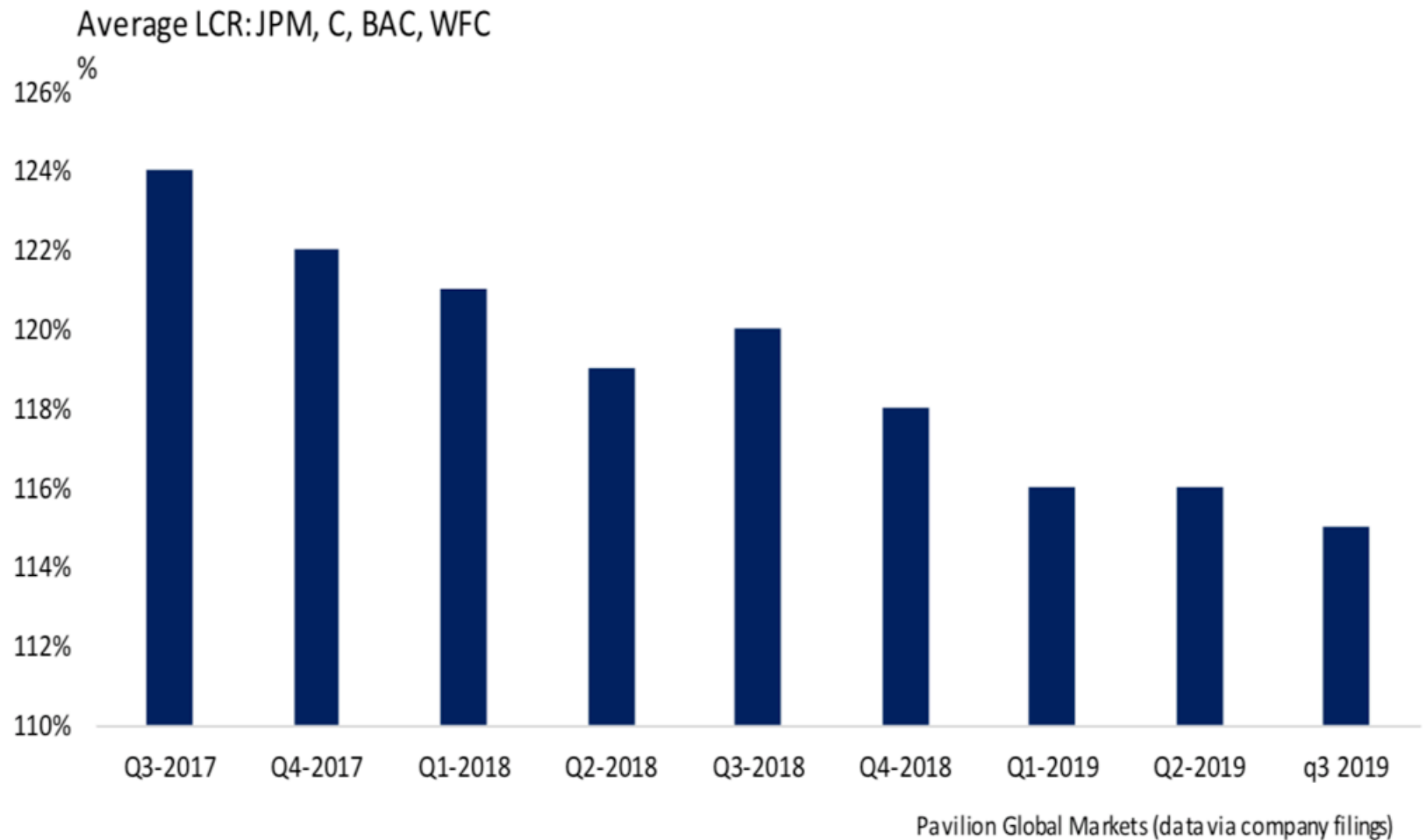


The Growing USD Funding Gap

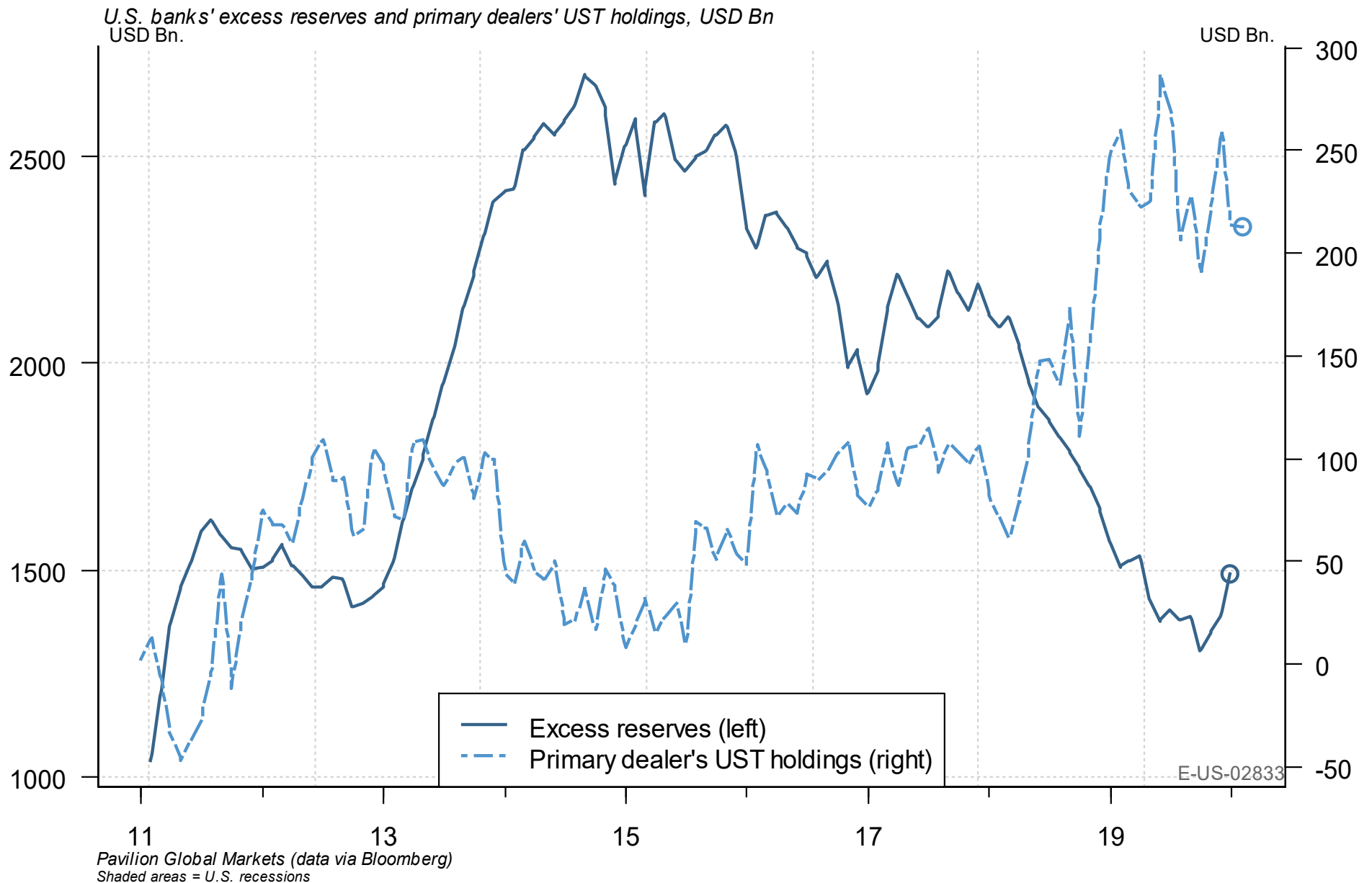
IMF Non-US Bank's cross-currency funding gap, USD tn.
USD tn.



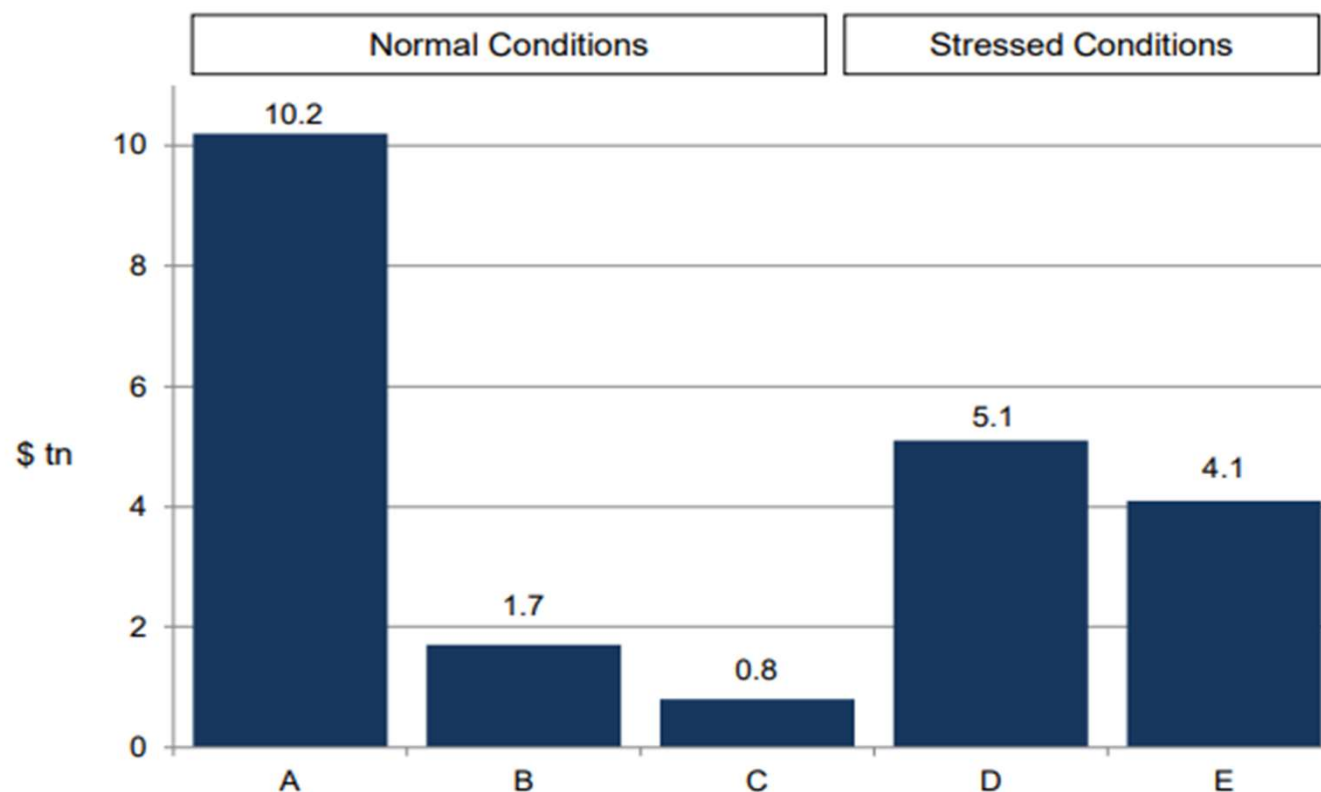
LCRs have been falling



The UST demand impact of Dodd Frank



Initial Margin Estimate Based on BCBS/IOSCO Proposal

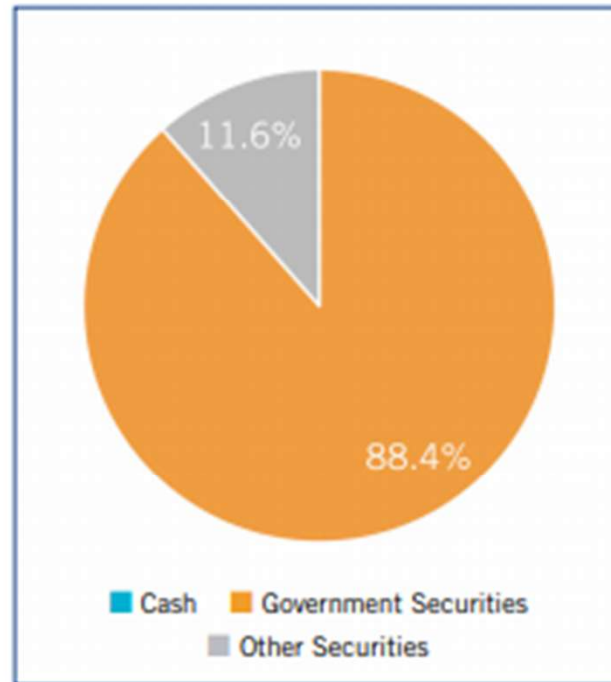


- A** All firms using standard margin schedule, no threshold
- B** All firms use internal models; no threshold
- C** All firms use internal models; €50mm threshold
- D** All firms use internal models; no threshold; stressed conditions
- E** All firms use internal models; €50mm threshold; stressed conditions

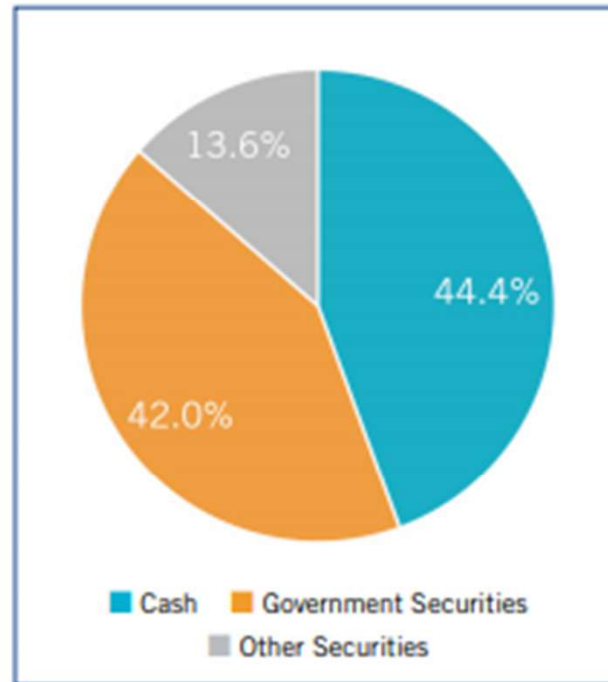
BCBS/IOSCO includes mandatory universal two-way IM posting; estimates based on \$127tn of uncleared OTC derivatives.

Source: ISDA

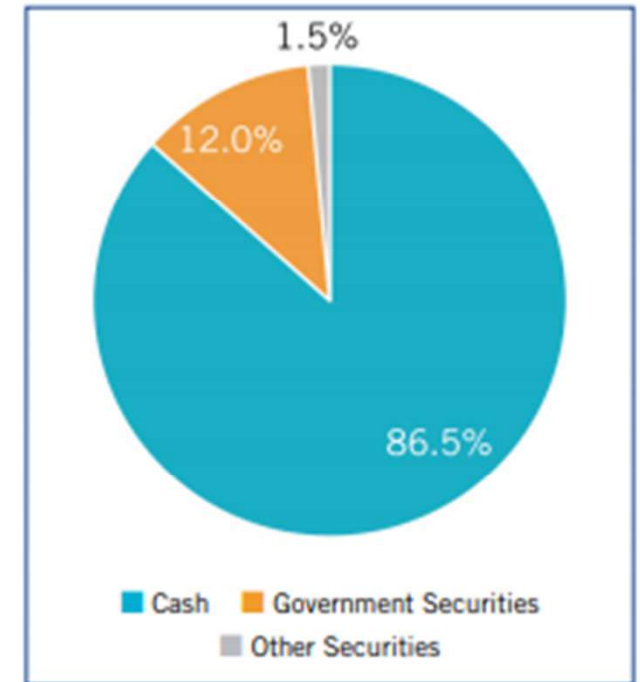
Regulatory Initial Margin Posted



Discretionary Initial Margin Posted



Variation Margin Posted



Source: ISDA

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