# Interest Rates Trade Idea

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## 10Y looks cheap vs 5Y & 30Y ahead of auction

- **The intermediate sector has underperformed in the past two months, evident in the 5-10-30Y spread, as bonds sold off. The performance of the belly has correlated with rising rates.**
- **Historically, a steeper curve and higher rates have led to cheaper 10Y vs 5Y and 30Y in general.**
- **We recommend an overweight of 10Y vs 5Y & 30Y ahead of the 10Y Treasury auction today. The 5-10-30Y yield fly looks cheap in both Treasuries and swaps, while the spread fly is in the low end of the one-year range.**




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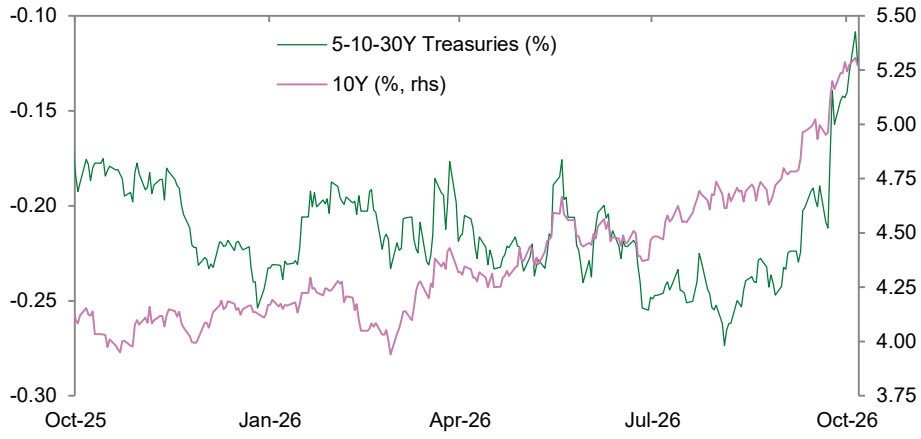
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The intermediate sector has underperformed in the past two months, evident in the 5-10-30Y spread, as bonds sold off. The performance of the belly has correlated with rising rates. The spread has gone from -27bp on 4 August to -12.5bp currently (Figure 1), with most of the widening in the past two weeks.

Historically, a steeper curve and higher rates have led to cheaper 10Y vs 5Y and 30Y in general; this time is no exception. Adjusted for yield levels and curve slope, 10Y looks cheap (Figures 2 & 3). Long-end rates have climbed recently on inflation and deficit worries. Meanwhile, recent Fed speakers, including New York Fed President John Williams and Fed Vice Chair Philip Jefferson, expressed little urgency to raise rates at the October meeting, which help stabilise front-end rates.

We recommend an overweight of 10Y vs 5Y & 30Y ahead of the USD39bn 10Y Treasury auction today. 10Y will likely outperform on the curve if vol declines and rates stabilise. The 5-10-30Y yield fly looks cheap in both Treasuries and swaps, while the spread fly, currently at around 16bp, is in the low end of the one-year range (Figure 4).

**Fig 1. 10Y cheapens vs 5Y and 30Y (%)**




*Source: Bloomberg, Crédit Agricole CIB*

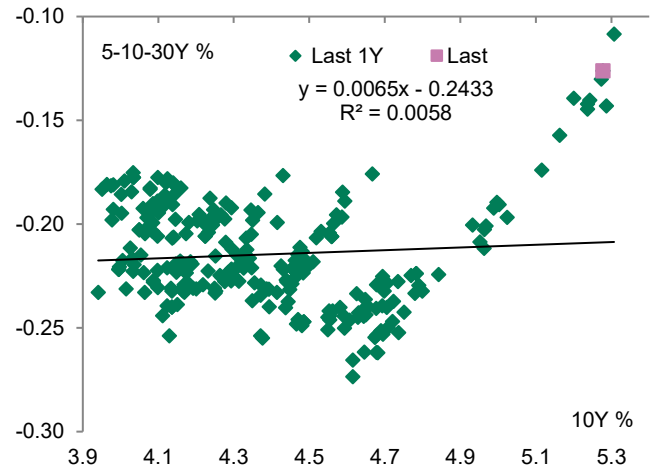
Our proposed trade structure is:

- Buy T 4.625% 8/2036, and
- Sell T 5% 9/2031 and T 5.125% 8/2056.51030

We target a profit at -25bp on the spread, a level traded early August. We put a stop level at 0bp. The trade has a 1M carry and roll around -0.1bp (Figure 5).

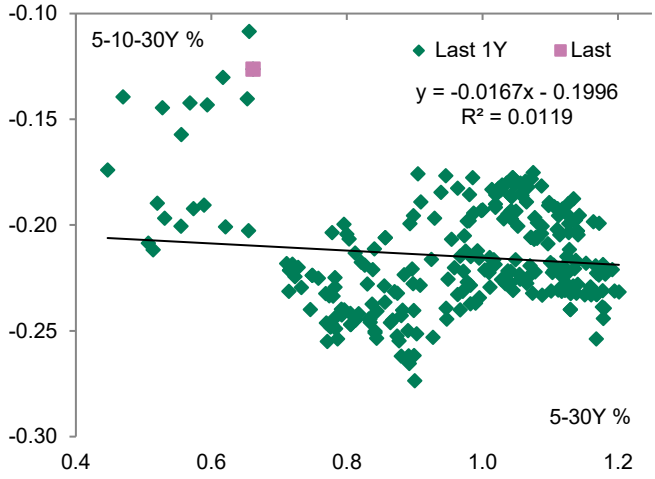
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**Fig 2. 5-10-30Y spread vs rates**



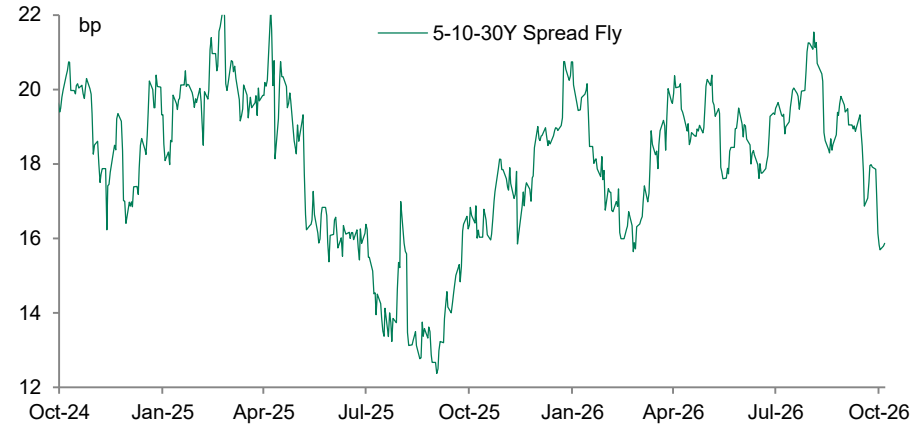

*Source: Bloomberg, Crédit Agricole CIB*

**Fig 3. 5-10-30Y spread vs curve**




*Source: Bloomberg, Crédit Agricole CIB*

**Fig 4. 5-10-30Y spread fly**




*Source: Bloomberg, Crédit Agricole CIB*

**Fig 5. Trade idea details**

| Opening | Currency | Trade Idea | Entry | Current | Carry & roll 1m | P&L | Target | Stop | Author |
|---|---|---|---|---|---|---|---|---|---|
| 07-10-2026 | USD | Buy 10Y vs 5Y & 30Y | -12.5 | -12.5 | -0.1 | NA | -25 | 0 | Alex Li |

*Source: Crédit Agricole CIB, Bloomberg*

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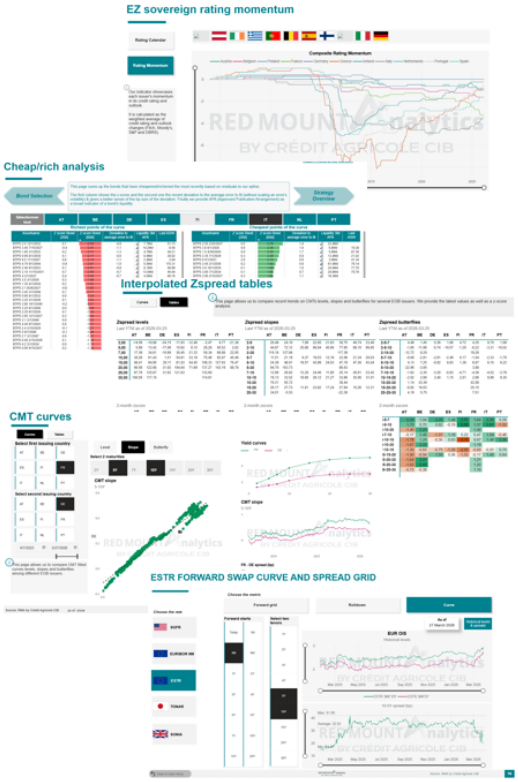
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*Source: RMA by Crédit Agricole CIB*

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