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Rates Daily: Getting the help to where it's needed

The foundations are laid, but the measures put in place have yet to show the desired effects. In Europe a decision on the ESM is awaited, extending a helping hand to Italy. Meanwhile first hard data points may allow for a more sober assessment of the unfolding malaise, while central bank purchases should keep yields in check

ECB headquarters, Frankfurt

Getting the help to get where its needed

Central banks and fiscal responses have laid the groundwork for a stabilisation in markets. We are now transitioning to a phase where the measures taken have to show their desired effects. The pledged money now has to get where it is needed. The Fed's commercial paper funding facility for instance, an important cornerstone in reining in the USD funding strains, will only begin operations "in the first half of April."

The transition may also go hand in hand with a more sober assessment of the incoming data, not just macro indicators, but also surrounding the virus spread as countries remain under lockdown with yet uncertain end dates. For now we see little reason to be cheerful on either. While this may help supress a rise in yields amid a ballooning deficit, the Fed should remain the dominating factor. Buying US Treasuries at an unprecedented clip with no limit given should serve as a form of yield curve control.

Awaiting a decision on the ESM

Eurozone government bond markets are closely following news surrounding the involvement of the European Stability Mechanism (ESM). Today EU leaders are expected to decide on the shape that ESM support will take, with the broad consensus seen forming around offering credit lines to all countries. Importantly, tapping into ESM support would also open up the possibility of ECB OMT purchases.

German bond yields increased notably yesterday on the back of news that the ECB was broadly supportive of launching OMT should it be required. Even the usually sceptical Bundesbank is not expected to oppose, unleashing potentially unlimited purchases. However, the point at which the ESM will be taken up on its offer will depend on the conditionalities EU leaders decide to attach to the credit lines. Too strict, and the hurdle for Italy may be too high initially, risking more turbulent markets for Italian debt before aid is eventually triggered. Reportedly Lagarde lobbied for joint “Corona bonds” in Tuesday night's Eurogroup call. She may feel this is not just about financing the battle against Covid-19, but also about preventing another sovereign debt crisis further down the road.

What’s up today: US jobless claims, BoE, Italian and Austrian bond sales

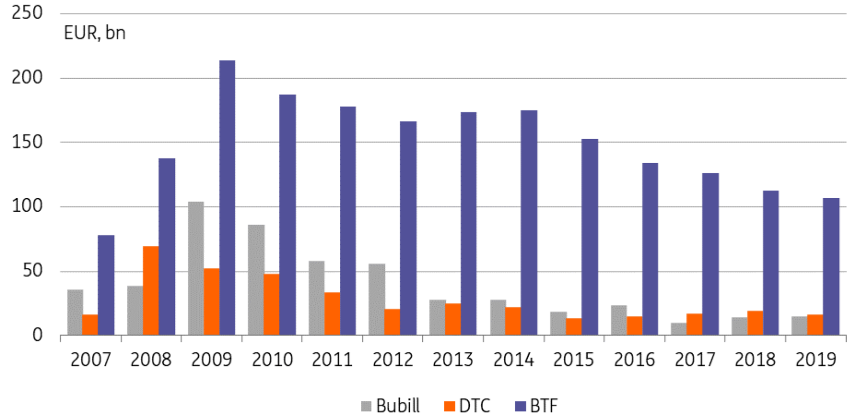
All eyes are on today's US initial jobless claims release. It is one of the first hard data points to gauge the impact of bringing an economy to a sudden stop. While the median estimate of economists looks for 1.5 million new claimants over the last week, estimates go as high as 4 million.

The Bank of England will meet today, but we are not expecting much as policy makers have already gone all-in.

In eurozone government bond primary markets, Italy will reopen an inflation linked and a zero coupon bond, for a total of €3.5 billion.

Austria will be in the market with the syndicated sale of a 3Y and 30Y bond. Austria has not updated its funding plans for 2020 yet, but what can be said is that the 3Y maturity is a first for the issuer. It does gel with the strategies already announced by France, the Netherlands and Germany, which all feature larger increases in money market issuance. This follows the pattern also seen in the wake of the global financial crisis.

Year-end treasury bills outstanding: Germany, Netherlands, France



Authors

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com