

## Rates: Not bothered

Despite the upbeat macro data, market rates have lurched lower. The eurozone 10yr swap rate remains above zero, but only just. The US 10yr swap rate is now closer to 1% than to 2%. This rates market is not for budging on macro prints it seems. As taper chat intensifies, this should change, and we target 2%. If not, extrapolate and 1% just gets closer



Yogis return to Times Square to participate in Solstice in Times Square: Mind Over Madness Yoga,

Source: Shutterstock

### Core rates are in low in part reflecting captive buyers, and the relative yield in Treasuries

Core rates markets continue to trade with remarkable resilience to buoyant macro prints.

Part of this reflects captive buyers of core bonds. These include central banks through bond buying programmes. It would also include pension funds that are often actuarially constrained to be long the same type of rates that their liabilities are discounted at. But also, a large rump of accounts sitting outside of the US view the level of US market rates as generous when compared to their domestic ones.

## The US 10yr rate has been testing lower of late (%)

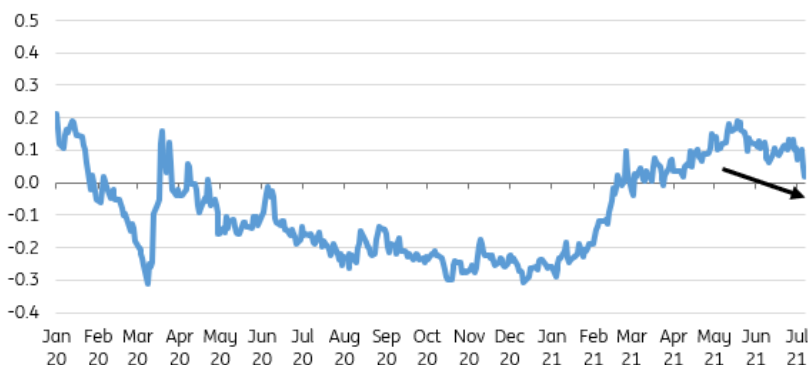


Source: Macrobond, ING estimates

## But the other explanation centres on a bond market that doubts the macro positives

Another part of the explanation centres on an implied rates market objection to the medium-term sustainability of macro positivity. Simply based off market levels, the vision of the future coming from the rates market remains a troubled one. The eurozone 10yr swap rate has had its nose above zero since February, but is struggling now in low-single digits. The US 10yr is in the 1.3% area and well off the 1.75% level touched in March. It's all a bit dour.

## The eurozone 10yr rate has also been easing lower of late (%)



Source: Macrobond, ING estimates

## At least curves are steep - good! But arguably they should be much steeper

The good news is curves are relatively steep, with high long rates telegraphing that central bank rate hikes are coming. But arguably curves should be much steeper. The simplest means to achieve this would be through the unwinding of large negative real rates. But, even in the past week real yields have moved deeper into negative territory again (US 10yr back at -1%).

## The US 10yr real rate (yield on inflation protected securities) has edged deeper into negative turf again (%)



Source: Macrobond, ING estimates

### The US 10yr seems to be more attracted to 1% than 2%. Material taper talk could spark a change

The US is key here, and simplistically there are two outcomes ahead. One is a 1-handle outcome. This is where the 10yr grinds down towards 1% (extrapolate the path we are currently on). The other is a 2-handle outcome, where the US 10yr reverts higher and ends up at 2-point-something. That's our macro-inspired central view. But it's proving to be a heavy lift. Proper taper talk should be determinative, and if that does not push us there, then it's hard to know what will.

#### Author

**Padhraic Garvey, CFA**  
Regional Head of Research, Americas  
[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

#### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central

Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).