

Rates Outlook 2021: Money for nothing

Our outlook for rates in 2021 is relatively optimistic. That said, there are numerous drags that will contain market rates. A large debt overhang is one. Pushing in the other direction is re-pricing from heavy supply and a potentially jumpy inflation dynamic. Our base forecasts are below followed by a closer look at the many drivers in play



Padhraic Garvey: Rates in 2021

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Bond yield forecasts 2021

	Curr 18-Nov	4Q20F	1Q21F	2Q21F	3Q21F	4Q21F
USD bond yields						
2Y US Treasury	0.17	0.15	0.25	0.25	0.25	0.40
5Y US Treasury	0.38	0.30	0.55	0.55	0.55	0.75
10Y US Treasury	0.84	0.75	1.00	1.00	1.00	1.25
30Y US Treasury	1.58	1.60	1.90	1.95	2.00	2.20
USD yield curves (bp)						
2Y/10Y US Treasury	67	60	75	75	75	85
10Y/30Y US Treasury	74	85	90	95	100	95
EUR bond yields						
2Y German Schatz	-0.74	-0.75	-0.75	-0.70	-0.65	-0.65
5Y German Bobl	-0.75	-0.75	-0.70	-0.60	-0.50	-0.50
10Y German Bund	-0.57	-0.60	-0.50	-0.40	-0.25	-0.25
30Y German Bund	-0.17	-0.20	-0.10	0.05	0.25	0.30
EUR yield curves (bp)						
2Y/10Y Bund	17	15	25	30	40	40
10Y/30Y Bund	40	40	40	45	50	55
Eurozone Spreads (bp)						
10Y Italy/Germany	119	115	105	100	95	90

Swap rate forecast 2021

	Curr 18-Nov	1Q20F	1Q21F	2Q21F	3Q21F	4Q21F
USD interest rates						
Fed funds rate (lower bound)	0.00	0.00	0.00	0.00	0.00	0.00
USD Libor 3m	0.22	0.25	0.25	0.25	0.30	0.30
2Y USD IRS	0.26	0.25	0.35	0.35	0.35	0.50
5Y USD IRS	0.44	0.35	0.60	0.60	0.60	0.80
10Y USD IRS	0.84	0.75	1.00	1.00	1.00	1.25
30Y USD IRS	1.26	1.25	1.55	1.60	1.65	1.85
USD swap curves						
2Y/10Y USD IRS	58	50	65	65	65	75
10Y/30Y USD IRS	42	50	55	60	65	60
EUR swap rates (vs 6m)						
ECB deposit facility rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Euribor 3m	-0.52	-0.50	-0.50	-0.50	-0.45	-0.45
2Y EUR IRS	-0.52	-0.55	-0.55	-0.50	-0.45	-0.45
5Y EUR IRS	-0.45	-0.45	-0.40	-0.30	-0.20	-0.20
10Y EUR IRS	-0.24	-0.25	-0.20	-0.10	0.05	0.05
30Y EUR IRS	0.02	-0.05	0.00	0.15	0.35	0.40
EUR swap curves						
2Y/10Y EUR IRS	28	30	35	40	50	50
10Y/30Y EUR IRS	26	20	20	25	30	35

Author

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

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