

## Rates Spark: An eye on risk sentiment

Equities jitters have helped to steepen curves, though all within prior ranges and a 10y UST yield above 4%. As 10y Bunds richen versus swaps, the swap rate remains near the upper end of its range while the back end is sensitive to Dutch pension fund news. Meanwhile, latest TIC data show decent buying of US assets, including foreign demand for Treasuries



### Souring equities help bull steepen rates

Rates are looking at the souring sentiment in stock markets and reacted with a bull steepening with bellies of the curve slightly outperforming. The 10y US Treasury yield remains near 4.1%, comfortably above the 4% threshold it crossed after Fed Chair Powell's cautious comments about a potential December rate cut at the last FOMC meeting. Nonetheless, the market sees Fed rate-cut chances at the December meeting increasing again, though it is still nearly a 50/50 affair. This followed softer weekly ADP employment data, pointing to a possible downward revision of the October monthly report, which had still shown job gains.

Over in Europe, the 10y swap rate at 2.75% still looks relatively high in its range since Germany made its spending announcement. However, we have seen Bunds trade gradually richer over the past days with 10y yields now standing 5bp below the swap rate. This dynamic mirrored rising hedging demand in equities markets, with the VIX volatility index reaching October levels.

The bearish steepening of the ultra-long segment of the EUR curve was the outlier of the day. It

was owed to news that the Dutch pension fund for the healthcare sector, PFWZ, received confirmation from the Dutch Central Bank to transition to the new defined contribution pension system on 1 January 2026. The back end of the curve has proven sensitive to news flow surrounding the transition, in particular when it pertains to the largest funds to transition in 2026.

## Latest US TIC data show that Buy America Back remains in vogue

Long term capital data showed robust inflows into the US for August and September (delayed due to the shutdown). The total net inflows over the two months was over \$300bn, and that follows some \$450bn of inflows over the previous three months stretching back to May this year. Apart from the \$24 of outflows for April (the month that was kicked off by 'Liberation Day'), it's been one-way traffic, in a positive sense for the US.

The bond flows show that foreigners bought a net \$126bn over the two months, although this includes a net outflow of \$14bn for September. Canada and Japan were the biggest buyers through August and September combined, and the custodial centres were also net buyers, while China was a small net buyer. The biggest net sellers were the UK, Brazil, India and France.

Big picture, Japan remains the biggest holder of Treasuries, at about \$1.12tr, followed by the UK at a tad under \$900bn and China at just under \$700bn. The wider picture shows China as an ongoing large net seller, even if for the latest couple of months it's been a moderate buyer. Overall, foreigners are holding 33.9% of US Treasuries on older data through to June this year; in fact, up from 33.2% at the beginning of the year.

That "Sell America" thing was a one-week trade back in April. Since then, it's absolutely been "Buy America Back."

### Wednesday's events and market view

In the UK, all eyes will be on the CPI release. Bank of England Governor Bailey has hinted that he is inclined to cast the deciding vote for a rate cut in December unless we get unpleasant surprises from the inflation side. The release is forecast to see core inflation having cooled slightly to 3.4% over October from 3.5% year-on-year in the previous month. The headline rate should come down to 3.5% from 3.8%.

Out of the eurozone we will be getting the final CPI reading for October. In the US, releases such as the building permits and housing starts data could still be subject to delays. We will get the minutes of the late October FOMC meeting, while the Fed's Miran, Barkin, and Williams are also set to speak.

In terms of issuance, the UK will auction £4.5bn in 10y gilts. In the US, the Treasury will sell US\$16bn in new 20y notes.

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