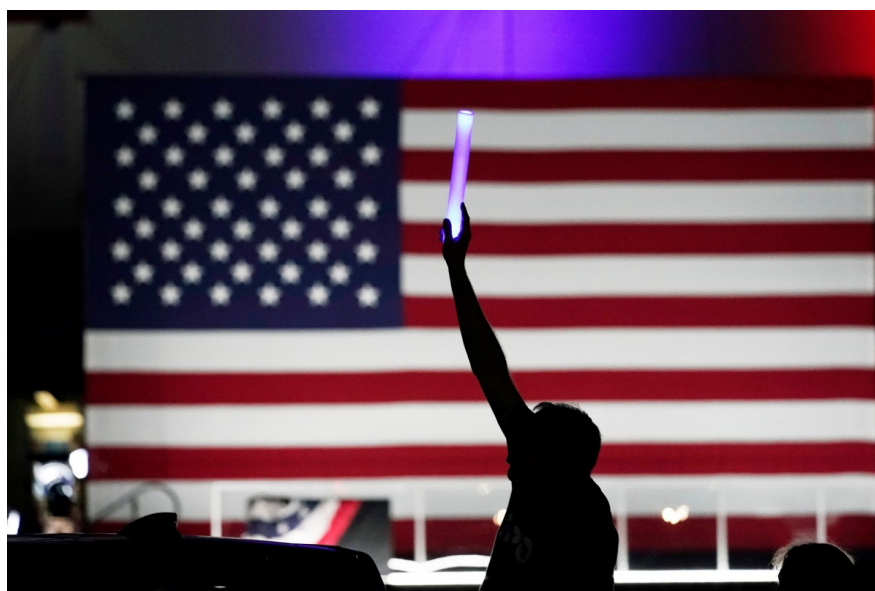


## Rates Spark: April bounce

We look through potential reasons for the April bounce in fixed income. A stubborn Fed and gloomy Eurozone outlook provide the best, if unsatisfactory, explanations. Upcoming US inflation data and supply offer the most likely drivers for a return to the higher rates trend



Source: Shutterstock

### The April bounce is more technical than fundamental

April has proved a good month for fixed income so far, and rates markets have been no exception, be it USD or EUR.

We are tempted to dismiss the rebound in government bonds, and the drop in rates, as technical in nature. Still, since they run counter to our macro view, they warrant further investigation. This should also give us an indication of how rates markets might trade into next week.

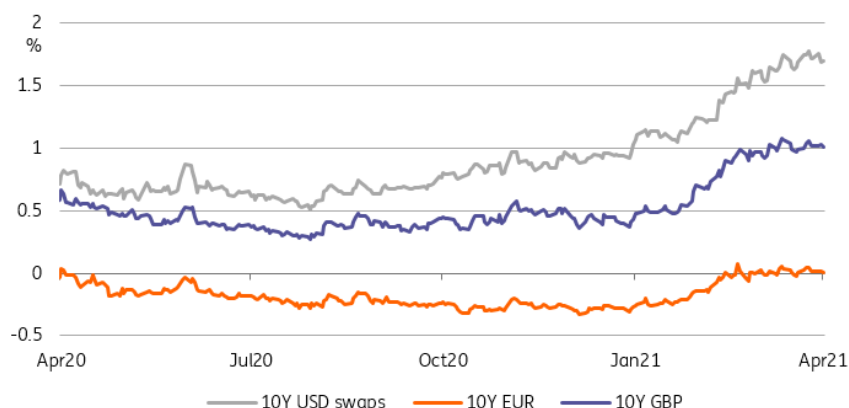
---

*We see no reason in data to question our economics team's bullish outlook on the US economy*

---

In short, we see no reason in data to question our economics team's bullish outlook on the US economy. If anything, job creation in March surprised to the upside and sentiment indicators confirmed the strength of the upcoming upswing. The same cannot be said in the Eurozone but we feel that survey-based data have at least eased the gloom caused by a third Covid-19 wave. Incidentally, the discrepancy in economic environments is the key reason why [we see USD and EUR rates diverge further in Q2](#), to 190 basis point in 10-year swaps.

## The trend towards higher rates has stalled in April



Source: Refinitiv, ING

## More credible central banks? Perhaps the ECB...

Given the above, we find it difficult to explain why the market would all of a sudden believe the Federal Reserve's forward guidance.

To be sure, the March FOMC minutes were very much on message, but we detect a growing disconnect between their projected rates path and the strength of the recovery. Perhaps the key here is that the Fed can be wrong longer than investors can remain solvent, so extending Fed hike pricing this early before data will prove them right or wrong might seem a bit of a stretch. For what it's worth, we don't think that Fed Fund rates two-year forwards above 30bp look stretched when one takes into account the term premia necessary to reflect exceptionally wide confidence bands this far ahead.

---

*We don't think that Fed Fund rates 2 years forward above 30bp look stretched*

---

In Europe, it is also tempting to attribute some of the fixed income strength to a greater degree of ECB credibility. After all, its decision to ramp up purchases for three months combined with the Covid-19 gloom could account for EUR rates' failure to follow their USD peers higher, but the [latest ECB minutes](#) did not suggest a firm conviction that the central bank needs to suppress rates at all costs.

As far as we can tell, technical factors might also be at play here, as elevated government bond

redemptions in April should bring higher ECB reinvestments, on top of the faster net purchases announced in March.

## Today's events and market view: the April bounce to the test

We find none of the above explanations satisfactory on their own, although the central bank credibility argument holds most water in our view.

Going forward, the fixed income rebound will be put to the test fairly quickly. First up, the US producer price index is expected to jump to 3.8% in February (release is today), and CPI to 2.5% in March (release next Tuesday). Both are headline figures, and both year-on-year are likely to be heavily distorted by last year's slump, both the month-on-month prints look similarly strong if consensus is anything to go by.

USD rates markets will also have to contend with long-dated US Treasury supply next week. If the recent bounce has been on the back of strong buying flow, then these should pose no particular challenge. Still, the rebound has been strongest in the belly of the curve, so we are unsure how much support this could lend to the long end. We find it prudent to stick to our bearish USD rates view into next week, but it could affect the long-end more due to supply.

Central bank speakers today include ECB VP Luis de Guindos and Dallas Fed president Robert Kaplan. Fed President Jerome Powell repeated his dovish mantra yesterday, judging that the spike in inflation mentioned above will be temporary and that much progress remains necessary on the job market.

## Authors

### Padhraic Garvey, CFA

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

### Benjamin Schroeder

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@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 <http://www.ing.com>.