Rates Spark: As the dust settles, there's still a price to pay

Lower oil prices help rates reduce hawkish takes on central banks, resulting in diminished expectations for an April hike from the ECB or BoE, and a re-build in a Fed rate cut rationale. But a relatively flat 2s5s suggests that the hit to the medium-term growth outlook might be more lasting. Curves can still steepen, though, overall, from both ends

Market reaction to the two-week ceasefire has been risk-on and, in general, relief trades

The dust settles on the craziness of the past 24-48 hours, and talk now rumbles on

Our reading of events, as they unfold, point to the logic of upholding the Iran war ceasefire, and an extension through to a virtual end to these specific hostilities. The US will want to get hands on Iran's enriched uranium, and if they do, may then hold their nose as Iran assumes a 'monitoring' role over the Strait (even if no more than a covert thing).

The market reaction to all of this was predictable; risk-on, and generally relief trades. For the rates market, front ends are under less rate hike pressure, and in the US the rate-cut story for later in 2026 is very much in play (has remained our view). For longer maturities, it's more opaque. The reality is, we are still left with an elevated inflation dynamic through the coming number of months, and that remains an issue for inflation unprotected fixed-income product.

The impact reaction of the ceasefire news has seen yields fall right across curves, but the lingering

effect risks a subsequent re-elevation in longer tenor yields, steepening curves from both ends. The 5yr area of the US curve has been re-richening, in line with a rate cut expectation, but that often co-exists with overall curve steepening.

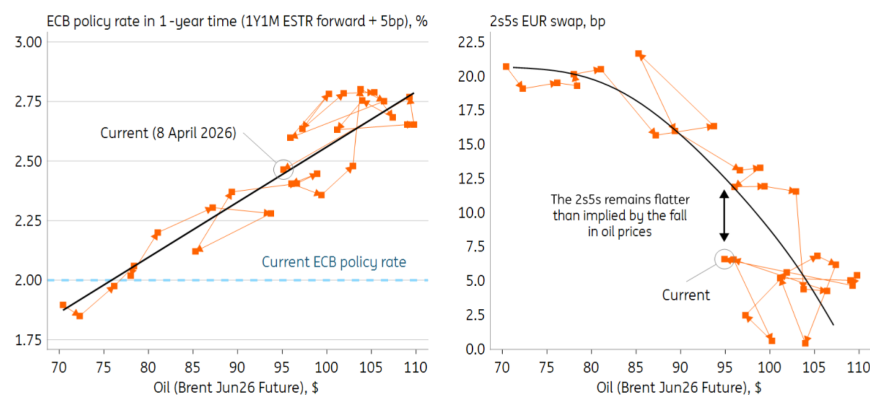
Markets are retracing some of the rate hikes but growth impact may be more lasting

With oil trading well below $100 again, rate markets have more room to breathe and so do central banks. At first sight, rates are simply following the playbook from the past month and are returning to the state when oil was at these lower levels before. This is in line with the idea that any inflation triggered by oil will only be short-lived with limited second-order effects.

As a consequence, markets are less set on European Central Bank or Bank of England rate hikes already in April, which should help mitigate rates volatility in the near term. Central banks will be reluctant to hike but at the same time cannot risk a perceived policy error. With near-term hiking expectations smothered for the time being, central bankers will have a bit more time to decide on the next move. In effect, this helps reduce the risk of a surge in longer rates if central banks are perceived to be reacting too slowly, resulting in a further rise in inflation expectations.

But when we dive deeper into the curve we can see that the move is not fully symmetrical. The EUR and GBP 2s5s curves remain flatter than before, which suggests that the medium-term growth outlook could face a more lasting hit. Because as the belly of the curve outperforms, markets are flagging a need for monetary easing to address growth concerns in the period after the initial inflation shock.

Front-end is retracing on lower oil prices, but the belly of the curve suggests a still worsened growth outlook



Source: ING, Macrobond

Thursday's events and market views

All eyes remain on the Middle East and whether the ceasefire can hold. Data is less relevant, especially when it pertains to the month of February, such as the US personal spending and income data and the PCE deflator, the latter usually the Fed's preferred measure of inflation. We will also get the final US GDP reading for fourth-quarter 2025. At best, this data can give a better sense of the economy's starting point going into the crisis. The weekly jobless claims data is the only more contemporaneous release, and it comes on the heels of

last Friday's strong jobs report.

On the European side, German and Spanish industrial production data may get some attention. But most want to listen to what ECB officials are saying now that geopolitical situations no longer look as dire. Scheduled to speak is the Dutch central bank's Sleijpen.

In primary markets, Finland is selling a new 10y benchmark via syndication. Other European supply will come from Spain, which reopens 3y, 5y and 10y bonds as well as an 11y inflation-linked bond. But also in the broader SSA space, it appears issuers are using the window of opportunity, with also KFW (5y green), COE (7y social) and UNEDIC (6y social) having mandated bond sales.

Elsewhere, the UK will auction 7y gilts (£4bn) and the US Treasury will auction 30y bonds (US$22bn).

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