

Rates Spark: Back to fiscal plans

The market seems to have already moved on from Middle East tensions, with EUR rates now focusing on Germany's fiscal plans. 10y Bund yields briefly hit 2.57%, underperforming gilts and Treasuries, but very long-end yields, in particular, have come under upward pressure



Markets are now eyeing Germany's new fiscal plans.

The structural pressure on Bunds from supply is becoming more tangible

Tensions in the Middle East are easing, and as far as the market is concerned, it is already time to move on. A clear signal is an oil price that has remained below US\$70/bbl despite further exchanges in hostilities between Israel and Iran.

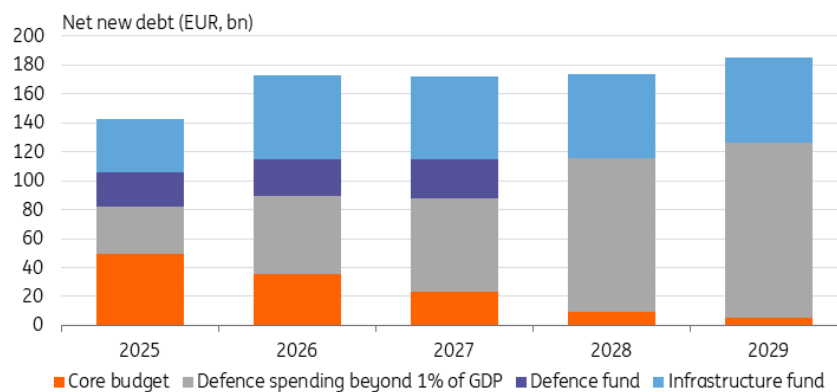
There is still some remaining uncertainty regarding the ceasefire. However, EUR rates markets are now closely eyeing the impact of fiscal changes now that Germany has published the outlines of its finance planning for the current legislature: net new borrowing of €143bn this year, €172bn in 2026 and rising to €185bn by 2029 as defence spending is ramped up faster than expected. The updated issuance plan of the debt agency for the upcoming quarter saw a €19bn increase, of which €15bn is via the bond market, and more adjustments are to come in the fourth quarter.

The improving risk sentiment alongside the refocus on the fiscal side briefly pushed the 10y Bund

yield close to 2.57%. More noticeable was the underperformance versus Gilts (over 4bp) and Treasuries (over 6bp). The underperformer, however, was 30y Bunds which temporarily rose up to 9bp as headlines indicated the debt agency was still looking at the possibility of issuing 50y bonds next year. Later, the wording of the head of the debt agency suggested such considerations were less imminent, allowing for some recovery in long-end bonds.

Still, 10y Bund yields are now only 1bp below swaps. And looking at the longer run finance planning, we still believe that Bunds should structurally trade above swaps, eyeing the 10-15bp range.

Defence will become the largest contributor to Germany's net funding needs



Source: German Finance Ministry, ING

Wednesday's events and market view

Geopolitics will continue to grab the headlines, though maybe more with an eye to the fiscal impact given the gathering of the NATO members' heads of state rather than developments in the Middle East. There are no notable data releases out of the eurozone.

In the US, Fed Chair [Powell will continue his testimony](#) on the Hill before the Senate committee, but the Fed is also set to discuss the supplementary leverage ratio (SLR) today. US data is focused on the state of the housing market, with releases of mortgage applications and new home sales numbers.

Primary markets will see Italy selling a new 2y short-term bond (up to €3bn) and a new 5y inflation-linked bond (also up to €3bn). The US auctions new 5y notes (YS\$70bn) and 2y FRNs (US\$28bn).

Author

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

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