

## Rates Spark: Bear flattening pressure persists, for now

The bear flattening pressure after the payrolls report extended at the start of this week. While in the US the discussion is morphing into whether or not the Fed should cut in November, the repricing on the EUR curve is focussed even more on where the ECB will land. Near-term cut expectations are little changed with 25bp in October still the base case



The discussion in US rates markets is now whether the Fed will cut by 25bp or not at all at the November meeting versus the 25bp or 50bp options on the table before

### Bear flattening pressure persists as near-term Fed cuts and the ECB terminal rate are reevaluated

Friday's payrolls data is still reverberating in markets. The bear flattening continued today with the Treasury 2s10s curve briefly flattening out completely. Less than two weeks ago it had peaked at 22bp.

The discussion in US rates markets is now whether the Fed will cut by 25bp or not at all at the November meeting versus the 25bp or 50bp options on the table before. Another cut in December remains likely, but overall the market discounts only 42bp of additional Fed easing for this year. As such the market is now more in line with the Fed's dot plot, which saw a larger number of FOMC

members put in their forecasts at less than the median prediction of 50bp more easing this year.

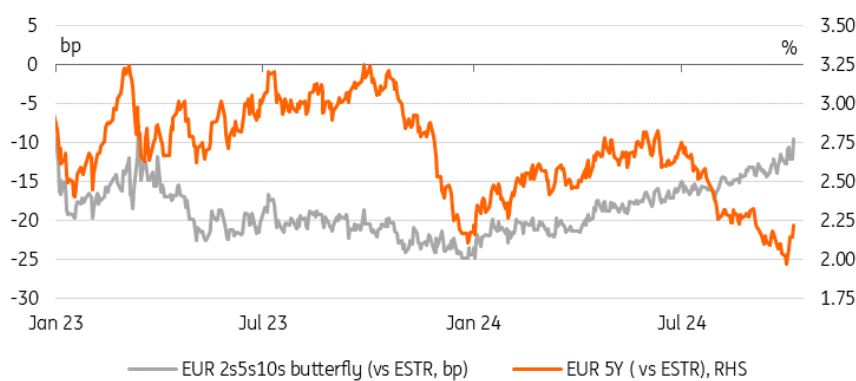
The prospect of further Fed cuts rolling in, even if not at the pace of 50bp, should keep a cap on the front end following Friday's surge. The 2Y UST yield only briefly managed to top 4% on Monday. If we take a view of a soft landing that would put the Fed's terminal rate in the area of 3.25-3.5%, even slightly tight versus neutral estimates, then the upside looks limited. At the moment, the SOFR futures strip already pitches that landing just above 3.3%, up from just below 3% ahead of the payrolls data.

Further out the curve the 10Y SOFR rate now stands at c. 3.55%, which is not far above the floor implied by the terminal rate. The 10Y Treasury trades with a 46bp spread over OIS, which implies that upside pressure even at a 4% yield handle now can persist – [more here](#). That can also morph the current bear flattening towards a steepening. The limiting factors of course are the markets' unease about the official jobs data, which does not tally with many other of the available data, say ISM employment components, or even the Fed's indications from its Beige Book. There is one more jobs release to come ahead of the November meeting. Markets will also be on alert about the ongoing geopolitical tensions.

EUR rates have seen a strong spillover from repricing in the US. 10Y Bund yields are now back above 2.25%, up from close to 2% at the very start of the month. But it has been the 5Y part of the curve that has seen the most cheapening, accelerating its recent trend. This links to the market repricing the ECB's terminal rate to around 2%. That still reflects a gloomier outlook but comes from levels eyeing 1.75%. Interestingly though, the payrolls report had little bearing on near-term expectations. Here the market is still pricing 23bp of easing for the October meeting and a tad over 50bp for the remainder of the year as a whole.

ECB officials did provide some pushback against the market's broader easing expectations. VP De Guindos made a start last week and Austria's Holzmann – arch-hawk of the ECB – declared on Monday that inflation wasn't defeated yet. Overall, however, the hawkish ECB camp has been relatively quiet on the topic of market expectations. Our economists think [the case for an October cut is not as straightforward](#) as the market believes.

## The 5y ESTR OIS continued to cheapen, buffeted by the terminal rate repricing



Source: Refinitiv, ING

## Today's events and market view

Data calendars become quieter again with the only notable releases today being the US NFIB's small business optimism and the US trade balance. Markets will likely pay more attention to Fed speakers after the strong data. Today's slate of speakers includes the Fed's Kugler, Bostic and Collins. We will also see a couple of ECB speakers with Centeno and Nagel.

In European primary markets Germany, the Netherlands and Austria will be active today. Austria will auction 10y and 30y bonds for up to €1.7bn. Germany reopens a 9y green bond for €1bn, while the Netherlands taps its 10y benchmark for up to €2.5bn. Additionally, the EU will tap 3y and 15y bonds via syndication. Over in the US, the Treasury will sell US\$58bn in a new 3Y note.

### Authors

#### Benjamin Schroeder

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

#### Padhraic Garvey, CFA

Regional Head of Research, Americas

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