

Rates Spark: Supply binge in the last chance saloon

Rates remain stuck to their ranges and an absence of top-tier data in coming days suggests this could be the state of play for a while. But risk factors like the debt ceiling add to a strong sense that this relative calm may not last too long, prompting more front-loaded issuance activity. Supply can lift rates, but is usually a more fleeting technical factor



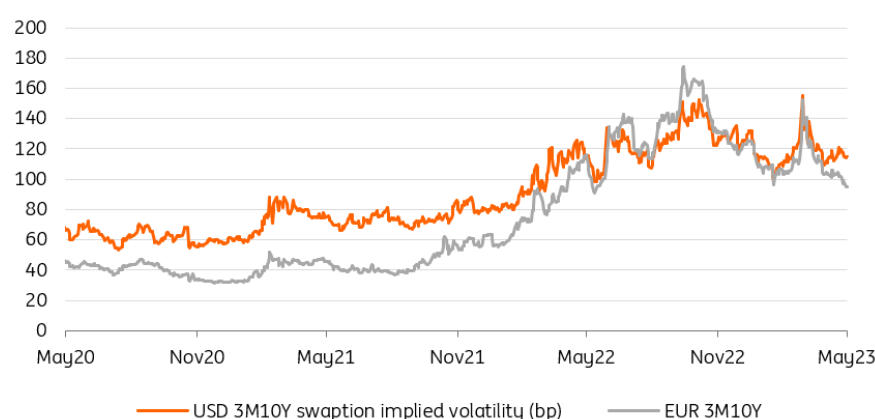
Current range trading marks a period of relative calm

Data and supply put notable upward pressure on yields yesterday, but overall levels are still well within the ranges established since mid-March. The past two months actually mark a period of relative calm, not just following the banking turmoil, but also relative to the time central banks were still seen to be in the midst of their tightening spree. This is in part also reflected in measures of implied market volatility, especially in EUR where the 3m10Y implied volatility for instance is at its lowest in a year.

Relatively benign market conditions may not last too long

However, there is a strong sense in markets that these relatively benign conditions may not last too long given the simmering banking tensions and the US debt ceiling negotiations that look set to go down to the wire. There is some sense of at least stabilisation regarding the former, but as to the latter, headlines after last night's meeting of President Biden with congressional leaders suggested very little progress. It is these risks are also continuing to drive the wedge between the Fed's own relatively hawkish talk and the market that is still pricing decent probability for rate cuts as soon as September.

Despite outlook uncertainty market conditions are relatively benign



Source: Refinitiv, ING

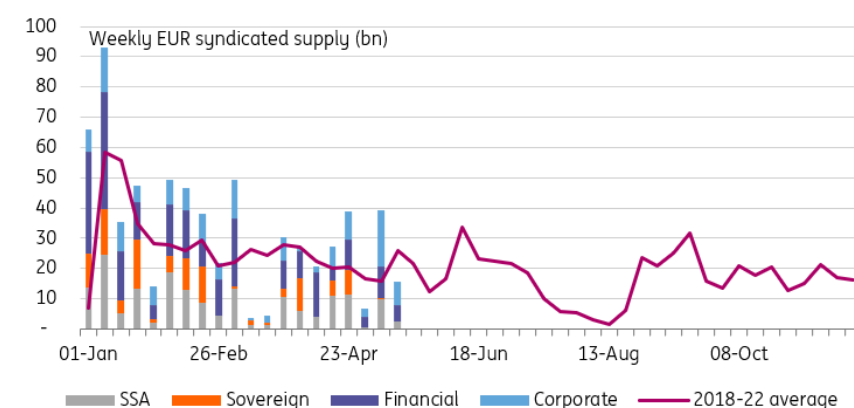
In between data, supply can become a driver of rates

It also does not mean we are not seeing still considerable market moves around top-tier data releases or central bank meetings as these still are the main guide for general direction amid the uncertainty with regards to the economic outlook. This situation seems to spur more front-loaded bond issuance as borrowers are seeing the number of potential issuing opportunities ahead of the summer being whittled down by holidays, data events and looming deadline for US debt ceiling negotiations.

Pre-summer issuing opportunities are whittled down by holidays, data events and the debt ceiling deadlines

The euroarea alone already saw around €40bn in EUR syndicated supply across sovereigns, SSAs and corporates last week. That figure has now been topped in the first two days of this week alone (note the chart only reflects Monday's data for the latest week). Supply will have been a technical factor contributing to the higher yields over the past few sessions and will be something to increasingly look out for if issuance is pulled forward. However, by itself it will not decide the general direction of rates going forward.

Bond issuance: Moving towards the last chance saloon



Source: Bond Radar, ING

Today's events and market view

In an environment of high uncertainty central bankers and markets alike are left to keeping scores for the competing hawkish and dovish camps as the data comes in. The strong control group reading in the US retail sales data yesterday was a surprising win for the hawks, but overall the game is far from being decided.

Coming days still show a lack of top tier data, leaving a potentially greater role for technical factors and headlines surrounding the debt ceiling, though none of these should get us out of established ranges yet. Today's calendar sees the release of the final eurozone CPI data for April and again a raft of ECB speakers. In the US we will get mortgage applications and housing starts data.

Eurozone government bond primary markets will be busy, with France selling short- to medium-term bonds as well as inflation linked bonds for up to €13bn in total. The auction was pulled forward by one day given tomorrow's holiday in much of Europe. Germany will issue €4bn in the 10y benchmark, while in the periphery Greece taps two bonds for €0.4bn. In the US the Treasury sells a new 20Y bond for US\$15bn.

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