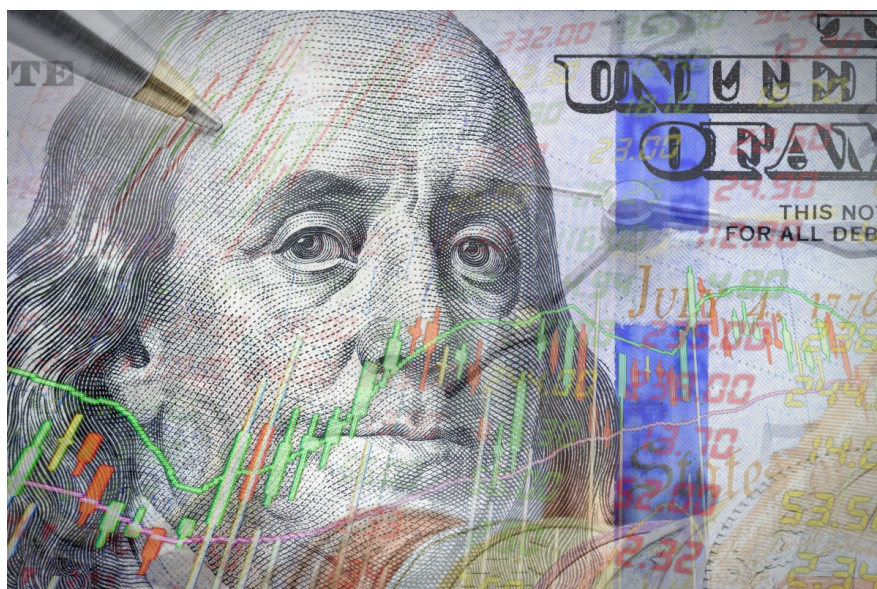


Rates Spark: Bonds get some bullish pills

It does seem there is a net bullish Treasuries impulse for now after decent CPI and 10yr auction events, provided the the May PPI bounceback is not overly robust. The bond bulls will be looking for softening in claims data. Euro rates exhibit low volatility and are increasingly detached from the US. In the near term we still see potential for Bunds to perform



US CPI and 10yr auction are good enough to prompt some follow-through

US consumer price inflation came in [benign for May](#). We had suspected as much, but the outcome was even more benign than we had expected. Two 0.1%'s on the month were super. Almost too low in fact. Annualise those and there is no inflation. But we can't do that, as tariffs will push consumer prices back up again, well up, all in the coming months. Tough one for the bond market to interpret. The reaction to this report was about right – yields gapped lower. But we can't, unfortunately, get too carried away with such "positivity". We will have self-inflicted inflation issues in coming months (it would be remarkable if we didn't). And passage of the tax bill adds another layer of bond negativity to the equation. But on the day, the positivity continued, as the 10yr auction was decent. There was a large negative tail (simplistically came through secondary), a low dealer take-down and decent indirect and direct bids.

Looking forward, we are not straying from our preferred bearish tilt on the 10yr Treasury yield. But at the same time we can't ignore bond bullish impulses when we see them. The 10yr yield has slipped to the 4.4% area. If it's in the mood it can of course drift lower. The producer price index is the big one on Thursday. It's typically not a big market mover, but will be interesting. It's expected to show a bounceback from the falls seen in May. Also, jobless claims are a bigger number than usual given talk of labour market weakening. It does seem there is a net bullish Treasuries impulse, unless the PPI bounceback to overly robust.

Bunds may outperform USTs in the near term but not in 2026

The tight range-bound trading in euro rates gives us the opportunity to zoom out and reflect on the long-term picture. Since 'Liberation Day' implied volatility measures have come down significantly and euro rates have increasingly turned indifferent to the moves in USTs. The disentanglement with US markets may be an omen in that over the long term US and euro rates could show more dispersion.

We expect Bunds to outperform USTs in the near term on the back of fragile global risk sentiment and US fiscal concerns, but the tables should turn in 2026. German and EU spending ambitions should start kicking in, supporting both eurozone growth and inflation. We don't expect stellar growth numbers, but the fiscal impulse should be enough for markets to price out the return of secular stagnation. Pricing out the tail risk of an ECB failing to bring inflation to target should help the 10Y swap rate closer to 3%.

Thursday's events and market view

From the UK we first have monthly GDP, industrial production and manufacturing numbers. With the more dovish data earlier this week, these may be more scrutinised by markets than usual. The US will publish the PPI numbers for May, which will be closely watched after the benign CPI. Jobless claims are expected to nudge slightly lower from last week. Other than data we have a long list of ECB speakers on the agenda. With a more hawkish-than-expected press conference last week, we will be listening for nuances in their views.

In terms of supply, we have Italy with a 3Y, 7Y and 29Y BTP auction for a total of €6.75bn. The US will auction 30Y Bonds for a total of \$22bn.

Author

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

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 www.ing.com.