

Rates Spark: Bumps on the final stretch

Rates are pressuring higher again as inflation prints out of Australia and earlier Canada reminded markets that disinflationary trends are not a one-way road. We still think that Friday's US PCE reading will help pave the way to Fed cuts starting in September, but markets also eye uncertain politics: a Biden-Trump debate tonight and the French elections



Second thoughts on inflation and political unease

As we wait for US PCE data, the upside surprise to Australian CPI came as a reminder that tackling inflation can be a bumpy ride and inspired rates to pressure higher again over yesterday's session, with the 10Y US Treasury yield topping 4.3% again. The momentum in US inflation numbers seem to be heading in the right direction again, but only time will tell whether the inflation problem has been fully tackled. With consensus expecting a 0.1% month-on-month core PCE, the Federal Reserve may have another satisfactory reading in its pocket, paving the way to a September cut.

Of course, there is data such as the US initial jobless claims today which will be scanned for more signs of economic weakness, and the same can be said for durable goods orders. Soft data has long been painting a bleaker picture than hard data and these data points will therefore be watched for signs that the cycle is indeed turning. In the eurozone, today's European Commission

economic sentiment indicators could provide confirmation of a slower growth environment towards the end of the second quarter after PMIs disappointed earlier. But these are not the hard data points yet that would really swing the market.

In the meantime, markets are bracing for more political action. The first round of the French election looms this weekend and the spreads of French government bonds have again widened a bit yesterday – they remain at elevated levels and we do not think there is a meaningful chance of recovery ahead of the second round on 7 July. Past elections tell us that especially the period between the first and second round can offer plenty of political surprises.

Late in the European night, Trump and Biden will face each other in their first debate. The rules are strict, with no tolerance for interrupting each other. Nevertheless, we expect an abundance of emotions being expressed. Content-wise we have less expectations. But given that the polls still seem indecisive about November's winner, any debate highlight could be enough to tilt the balance.

Today's events and market views

The data calendar today has somewhat more to offer, with the weekly initial jobless claims in the US seen nudging slightly lower to 235k. We also have durable goods orders for May which are expected to come in lower after the rise in April, as well as the third GDP reading for the first quarter. In Europe, the Commission's sentiment indicators are the main highlight next to the European Central Bank's money supply data. The ECB's Muller and Kazimir are scheduled to speak.

Italy will auction 5Y and 10Y BTPs, together with an 8Y CCTeu, together totalling €8.75bn. The US will auction a total of \$44bn in new 7Y Notes.

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