

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.

Authors

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

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 <http://www.ing.com>.