

Rates Spark: Bunds relatively detached from oil price moves

Bund yields have only reacted moderately to the recent uptick in oil prices, emphasising diverging growth outlooks. Markets are convinced of an October ECB cut and oil prices would need to move considerably higher to change conviction. Among the European supra names, the EU is the only issuer that still has a notable amount to fund this year



Pessimistic eurozone outlook keeps Bund yields from ticking higher with oil prices

EUR rates have settled higher after that big US payrolls number last week and are likely to trade more range-bound in anticipation of the upcoming European Central Bank decision. The conviction of a 25bp cut next week is high and there will be little economic data until then that could persuade markets otherwise. Having said that, we do have oil prices to watch, which have shown quite some volatility of late. If we see more upside surprises from global growth, and at the same time headlines from the Middle East emerge, the risk of higher prices could be considerable.

Still, Bund yields reacted only moderately to the recent uptick in oil prices (see figure below), which emphasises markets' diverging expectations between global and eurozone growth. The US labour

market is showing signs of resilience (again), whilst Chinese growth expectations are improving on the back of broad stimulus measures, helping oil prices to go higher. The potential bright spots for the eurozone are more difficult to see and given growth concerns are getting more attention of late than inflation, the front end of the Bund curve is likely to remain anchored for now.

Whilst the ECB did mention the decline in oil prices as a supporting factor in its decision-making earlier, we would need to see a lot more to convince markets that an October cut may not be as obvious as priced in. Also on Tuesday various ECB speakers, including the known hawk Nagel, hinted at a willingness to cut in October. Nevertheless, the current pricing of 24bp for a cut may be stretched and a sudden push higher by oil could challenge that positioning.

EU to remain prominent in primary markets even after Tuesday's larger deal

The EU issued €11bn via the syndicated reopening of two bond lines, €5bn in a 3y and €6bn in a 15y. Investor appetite looked healthy with a combined book of €166bn and in the end the size of the transaction exceeded market expectations, and was also larger than the September deal.

Among the European supra names EU, ESM, EFSF and EIB, the EU is the only issuer that still has a notable amount to fund this year. With close to €118bn issued, slightly more than €22bn remains to reach the indicated target of €140bn for 2024. ESM and EFSF have completed their funding for the year, and EIB said its 5Y EUR bond issued last week was the last EUR benchmark for the year with close to €62bn of its €65bn funding target reached.

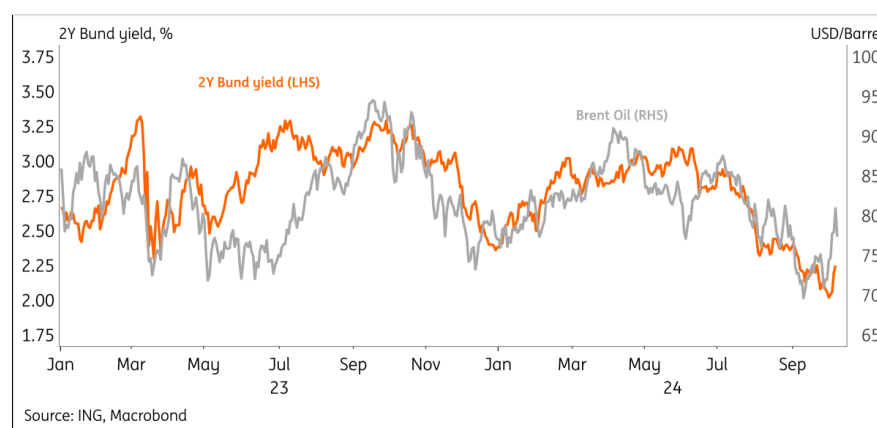
In terms of spreads, the valuations of the sector versus swaps in the 10y area are still around 5-6bp cheaper versus the end of August, but there has been some stabilisation since the beginning of this month.

Today's events and market views

Relatively little data is scheduled, with US mortgage applications likely the highlight. In contrast, there are plenty of central bank speakers on the agenda. From the ECB, we have Villeroy speaking and from the Fed the list includes Bostic and Goolsbee. The FOMC meeting minutes from 18 September will also be published.

In terms of issuance, Germany has scheduled a 12Y and 17Y Bund for a total of €1.5bn. From the UK we have a 10Y Gilt for £3.75bn. Lastly, the US will auction a 10Y Note for \$39bn.

Recent uptick in oil prices did not find its way to Bund yields



Author

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@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.