Rates Spark: Choppy markets unlikely to calm

Swapped issuance may contribute to a bullish push in euro rates and, with more supply on the agenda, rate markets are likely to stay volatile. Also, geopolitical risks and speculation on Dutch pension flows could push around the long end

With strong supply, rate markets are likely to remain volatile for a while

Supply and geopolitical risks are pushing around euro rates

Quite choppy markets on Wednesday, and with supply staying strong, we should see more volatility going forward. A significant portion of issuance is being swapped, which means incoming supply is matched with fixed receiver swaps. This can contribute to the bullish push in euro rates. The 10Y euro swap rate ended some 4bp lower on the day, perhaps also helped lower by a rethink of the geopolitical risks ahead of us. Having said that, Bunds underperformed swaps, suggesting no strong safe-haven flows materialised. With plenty of supply still on the agenda and geopolitical risks here to stay, we think rates will stay restless for the time being.

On top of that, if a flattening trend pushes through, any steepener positions intending to capture Dutch pension flows will be tested. As a matter of fact, the 50Y swap saw the biggest drop in rates on Tuesday, which is typically a pensions play. Market players with long end steepener trades may fear a similar flattening episode to what we saw last September. If the flows from Dutch pension funds do not meet expectations, then an unwind of 10s30s and 30s50s positions may accelerate the flattening move.

Thursday's events and market view

Data wise, the focus remains on the US jobs market. We will get the Challenger job cuts numbers as well as the jobless claims data. Other US data to watch are consumer credit as well as the NY Fed's 1y inflation expectations survey. The only scheduled Fed speaker for the day is Miran.

In the eurozone we will receive the Commission's confidence indicators and the ECB's consumer inflation expectation surveys. The unemployment rate and PPI data for November round off the day's releases.

The supply pipeline is filling up with Italy having mandated a €5bn tap of its 2026 green bond alongside the launch of a new 7y benchmark bond. Portugal announced the sale of a new 10y benchmark, while in the broader EUR SSA sector German Land Rhineland Palatinate and the Asian Development Bank are in the market for new short-dated bonds, new 2y and 3y lines, respectively.

In terms of scheduled auctions, France (10y, 14y, 16y and 30y taps) and Spain (4y, 7y, 18y and linker taps) are active, slated to sell up to €13.5bn and €7.25bn, respectively.

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