

## Rates Spark: Coping with more reactive central banks

Rates markets yesterday broke with the patterns of recent days. Technical factors blur the picture, as the EU deal will have played a part in the EUR sell-off, and the US curve pivot may just be a squeeze ahead of 30Y supply. But we saw Fed speakers dispel any doubts of a November taper raised by the weaker jobs data while CPI will highlight inflation concerns.



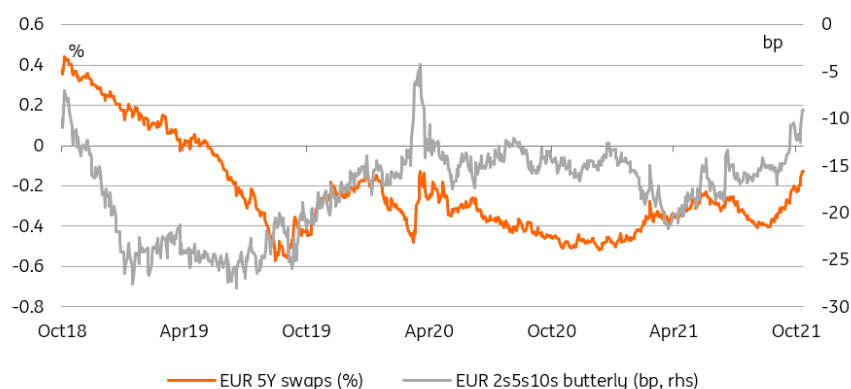
### Record-setting EU green deal weighs

The EUR rates complex sold off countering the moves of its US and UK counterparts. Fingers are easily pointed at the [€12bn EU 15Y green bond deal](#), but it is at odds with the record demand that deal attracted with an order book north of €135bn.

That the sell-off was led by the belly of the curve may also hint at origins more related to central banks. The Eurozone saw the ECB's Villeroy being somewhat less dovish than usual, pointing out the likely end of PEPP after March next year. His view that some of the programme's flexibility should be maintained within the ECB's "virtual" toolbox appears to confirm earlier press reports that the ECB is mulling a new programme to replace the PEPP, but which would only be activated

in emergencies and not actively buying by default. The upshot would be to allow for lower purchase volumes also by the APP that is still to exist for some time.

## 5Y is leading the rise in EUR rates

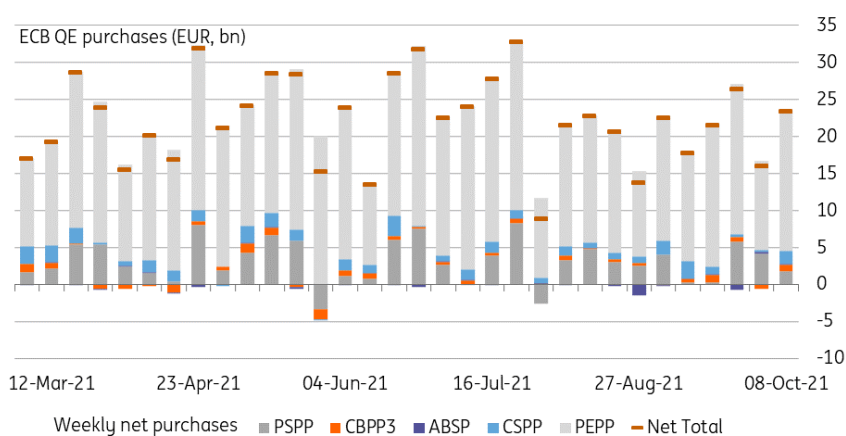


Source: Refinitiv, ING

*The ECB continues to buy assets at a relatively high clip.*

For now the ECB continues to buy assets at a relatively high clip. Last week's purchases of €23.7bn, €18.8bn net of redemptions were relatively high value for a single week. And it brings the average for the weeks since the ECB decided to moderately slow purchases in line with a monthly value of still above €70bn. Perhaps for the market perception it is more important what this value has not been able to achieve, that is prevent yield levels from rising significantly. We would point to a 10Y BTP/Bund spread still close to 100bp as the main prize, though the ECB may struggle to hold onto it eventually if it becomes clearer that the ECB's focus shifts away from asset purchases.

## Last week's ECB buying was relatively high



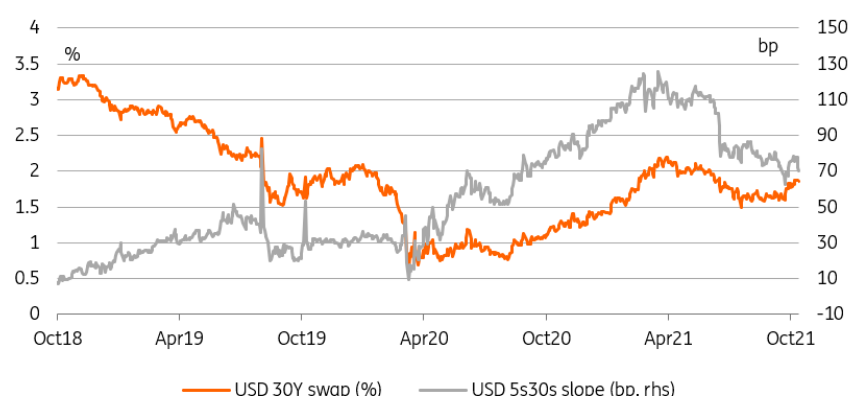
Source: ECB, ING

## Unease or technicals?

US rates saw an aggressive flattening pivot of the curve. While front end rates moved 2bp higher, the back end saw the 30Y rallying 7bp lower. On the eve of a 30Y auction that might hint at more technical factors at play like a market squeeze. Yesterday's 10Y auction saw strong demand.

What we also saw was a flurry of speakers signalling increasing determination despite last Friday's weaker labour data and all but confirming that the November taper announcement is a done deal. After today's CPI, which is seen to stay elevated and thus highlight the ongoing inflation concerns, there is admittedly very little that could possibly change minds bar any catastrophic turn of events.

## The US curve is still figuring out which way it wants to go



Source: Refinitiv, ING

### *The November taper announcement is a done deal*

The Fed's Clarida admitted there was a "flavour of stagflation" but this was unlikely to become a trend as inflation should still be largely transitory. Still, beginning tapering was soon warranted, but he also stressed that there was no automatism between taper and the timing of a first rate hike. The Fed's Bostic, though, labelled transitory a "dirty word" as inflationary effects turn out more lasting. He did not see the latest weaker job report derailing the taper from being announced next month.

Such comments may stir fears surrounding the economic outlook amid an overzealous Fed. However, if yesterday's aggressive flattening was a sudden sign of market concern, then this did find any adequate reflection in other (risk) markets.

## Today's events and market views

The key report today is the US September CPI. Our economists see a slight chance of at least the core inching higher. With market sentiment shifting clearly towards a more aggressive Fed and a taper announcement in November seen all but a done deal, we could at best see a small reaction in increasing front-end pricing of hikes.

Sentiment could be further vindicated by the FOMC minutes this evening, and one can hope to glean more hints around the shape of the taper. Also in the focus of US markets is the Treasury's sale of US\$24bn in 30Y bonds.

The Eurozone sees 3Y, 7Y and 30Y taps from Italy as well as a 30Y tap from Germany. In data the focus is on August industrial production. Here shortages continue to bite and expectations are for another decline.

## Authors

### Benjamin Schroeder

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

### Padhraic Garvey, CFA

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto: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>.