

## Rates Spark: CPI pointers

US CPI readings have had a habit of disappointing, and markets' stronger footing into the release and an ongoing preoccupation with a 'pivot'-narrative make it look more susceptible to such an outcome. In any case, Fed officials may see little reason yet to signal less tightening on aggregate given inflation is still wide of the mark



### One slower inflation print may not yet mean the Fed will want to signal less tightening in sum

The US October CPI will be today's main flashpoint. The consensus is for headline inflation to slow to 7.9% and the core rate to ease to 6.5%. The main focus should be on the month-on-month core rate, which is seen ticking down to 0.5% from 0.6%. Mind you, readings closer to 0.2% is what would be needed to bring the rate closer to the Fed's 2% target, so anything we will see today will still signal central bankers that they are wide off the mark.

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*Today will still signal to central bankers that they are wide of the mark*

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But coming in the wake of the Fed signalling the possibility of decelerating its tightening pace from December onwards, there is a good chance that markets will extrapolate this from today's data. A reading in line with consensus should further strengthen expectations for a 50bp hike in December, which is what the market is currently leaning towards, with a 57bp increase discounted in the OIS forwards. The cautionary tale is that inflation data has had a habit of surprising with higher readings. Markets have been trading stronger going into today's reading with 10Y Treasury yields dipping towards 4.05% yesterday, which could increase the impact of a disappointing inflation reading.

However, we have the feeling that the market may still be too absorbed with the notion of a potential pivot. There are good reasons to slow the pace of tightening not least given policy lags involved after a phase of catching up. That does not mean that the Fed will want to signal that it is doing less tightening in sum. This should not be the case unless there is more compelling evidence of inflation being on a trajectory to return to target.

## US yields off their highs means a high CPI would be most impactful for markets



Source: Refinitiv, ING

## ECB sticks with hawkish tones

The European Central Bank has shown its willingness to keep its hawkish stance even in light of growth risks. At the hawkish end, Belgium's Pierre Wunsch stated the ECB may need to hike more than markets expect if the economic downturn remained mild. Such hawkish signalling might be motivated by real rates having failed to rebound from their late October slump.

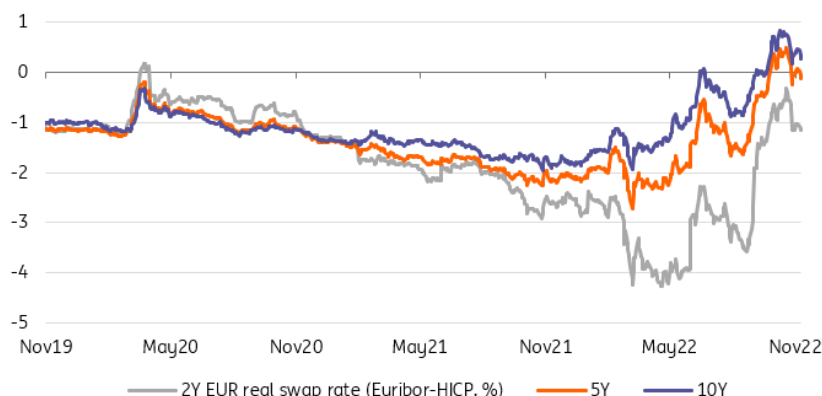
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*The ECB's consumer expectations survey contained little to cheer about for the ECB*

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To be sure, the ECB's consumer expectations survey contained little to cheer about for the ECB and its efforts to tackle inflation. Near-term price expectations over the 12-month horizon increased a little to 5.1%, while longer run inflation expectations over the 3-year horizon remained unchanged at 3%. Uncertainty over the outlook remained elevated. At the same time expectations of economic growth deteriorated markedly.

## The fall in real rate is a concern with inflation expectations rising



Source: Refinitiv, ING

### Today's events and market view

Rates markets appear to be trading on the front foot going into today's US CPI report. But the backdrop is still one where the appetite to take on duration risk appears to be limited. At least this is what the disappointing metrics of yesterday's 10Y US Treasury auction suggest and we think the risks are skewed towards a larger move on the back of a disappointing inflation reading. Note that today the US Treasury will also follow up with a 30Y auction, and such long duration supply could well extend a push towards higher yields.

A number of Fed officials are scheduled to speak after the CPI release, including the Fed's Daly, Mester and George. Other US data to watch are the initial jobless claims that should still point to a relatively robust labour market. In the eurozone the focus should be on ECB comments with Isabel Schnabel scheduled to speak in the afternoon.

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