

## Rates Spark: Data doesn't change an uncertain backdrop

This week's first data releases did not change the underlying narrative for rates markets, in which (geo)political uncertainty dominates. While we think euro rates should be higher from a structural perspective, for now we remain bullish given the fragile state of global risk sentiment



So far, this week's data hasn't distracted markets from the highly uncertainty geopolitical backdrop

### Data doesn't change narrative of great uncertainty ahead

The first series of important data of the week is in, but euro rates remained unfazed by the numbers, and rightly so. First Spanish GDP numbers came in slightly lower, but inflation was on the high side versus consensus. The European Central Bank's consumer confidence index remained right where it was, and no tariff shock could be detected yet. Later, we did see some disappointing US jobs and confidence data, helping the short end of the US curve lower by a tad.

The data doesn't change the overall narrative, in which (geo)political uncertainty dominates. We do, however, see markets calming down, with implied rates volatility for euro rates back to the levels of January. Having several days without major headlines from US President Donald Trump helps here. In the background, markets are contemplating whether a Trump "put" might be in place, and that he doesn't entirely ignore markets when it comes to his policy actions. But with many issues still unresolved, like trade tensions with China and the Ukraine conflict, we doubt

we've seen the last volatile episode.

## Still structurally bearish on EUR rates, but tactically bullish

When looking further out the curve, we see that the 5Y5Y EUR inflation swap is close to the 2% handle again at 2.05%. Remember when Germany's spending announcement in March pushed this up north of 2.2%. The current level portrays quite a pessimistic structural view. A healthy inflation risk premium would probably be around 20-30bp. The current pricing suggests markets are challenging the ECB's ability to hold inflation at target over the long run.

We see higher EUR rates from a structural perspective, but given the lurking uncertainty, we take a more bullish view from a tactical perspective. The German spending story has been pushed to the background amid tariff headlines and should become of more importance later this year and in 2026. For now, it's risk sentiment driving rates markets, and any downside data surprises can easily trigger another leg lower for euro rates.

### Today's events and market views

Another long list of data is slated for today. Germany, Italy and the eurozone will publish first quarter GDP numbers. These don't capture the impact of Trump's tariff announcements and are therefore difficult to draw strong conclusions from. Inflation numbers for Germany and Italy could be more interesting, as these help guide the easing room of the ECB. From the US, we have the core PCE deflator from March, which is expected to come in at 2.6%, thereby closing in on the Federal Reserve's target. But of course, the impact of tariffs is also not captured here. Another thing to watch is the quarterly funding announcement from the US.

In terms of issuance, we have Portugal with a 25Y OT for an estimated €3bn. The UK has scheduled a 3Y gilt auction for £4.5bn. From Germany, we have a 16Y and 19Y Bund auction totalling €2bn.

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