

## Rates Spark: Difficult to break out of current trading ranges

Rates markets need a significant shift in data to break away from the current trading ranges. Trump's tariff threats add to the volatility but are so far considered noise. A deterioration in the US data could be a potential trigger for euro rates to make a move lower. Meanwhile, Dutch pension funds get more time to rebalance hedges around transition dates



Range-bound trading will be difficult to break from unless the data shows a considerable turn

### Range-bound trading to remain until the data points in a clear direction

Completing the tariff uncertainty, the US administration has faced a ruling that voided all tariff orders based on “national emergencies” using the International Emergency Economic Powers Act (IEEPA). An appeals court has now paused that ruling, and the US is also seen as having other avenues to pursue its tariff policy, albeit maybe slower and less sweeping.

We see rates markets trading range-bound, but with plenty of noise adding to the volatility. Looking at the heavy data schedule ahead, markets will be looking for cues that could bring back some directionality. But such triggers might be difficult to find. On Friday, we have the US core PCE

number, which is expected to come in soft at just 0.1% month-on-month. These numbers are from April, however, and therefore are from too far back to assess the impact of US President Donald Trump's 'Liberation Day'. Next week's US ISM and payroll numbers may get more attention since these should capture the economy's reaction to the lingering policy uncertainty.

For euro rates breaking away from current levels, the data will need substantial surprises. Tuesday's core CPI from May is likely to remain sticky around 2.7%, and even if the number comes in much higher or lower, the focus remains on tariffs. The number also won't change the European Central Bank's fully priced-in cut on Thursday, bringing the policy rate down to 2%. The 2Y swap rate is now consistent with an ECB landing around 1.75%. Negative developments in the trade negotiations could push this closer to 1.5%, but only if the data also turns significantly more sour can that handle be broken, in our view. As such, the wiggle room for the short end of the curve remains limited.

The 10Y euro swap rate is equally unlikely to break far from 2.5%. Trump's headlines can move it closer to 2.4% or 2.6%, but outside that range, a clear shift in the data is needed. US data may play a more instrumental role for euro rates than domestic data, given that a hit to global risk sentiment can bull flatten the euro curve. Yet with 10y Bunds trading around the level of swaps, markets are already positioned for more headwinds and uncertainty ahead

## Minister gives Dutch pension funds more time to rebalance interest rate hedges

Most Dutch pension funds intend to transition on 1 January 2026 or 2027, which means [markets will need to absorb significant flows](#) around those dates. The ongoing reforms imply that pension funds will be unwinding a substantial portion of their swaps and bonds with a maturity of 30 years and beyond. Earlier this week, the Dutch central bank already flagged the risks to financial stability around the transition moments, especially due to the more limited liquidity for such longer tenors.

The minister responsible for the pension transition will now allow funds to take more time to rebalance their interest rate hedging from a regulatory perspective. While this may help alleviate some of the pressures, we are sceptical as to whether this fully addresses the challenge the market faces. Because all funds are facing the same trade, we continue to see a first-mover advantage to those that make the transition earliest. As a fund, you do not want to be the last to unwind longer (30Y+) dated fixed receiver swaps, even if regulation allows that.

### Friday's events and market view

Spain, Germany and Italy will publish their CPI numbers for May. Consensus sees relatively benign readings for all three, giving the ECB plenty of ease to cut rates next week. From the US, we have the core PCE reading from April, which is expected to come down from 2.6% to 2.5%. With trade tensions remaining in focus, markets will want to wait for the coming months' data before drawing conclusions about the impact of tariffs.

Primary markets will see the Italian treasury opening this week's BTP Italia sale to institutional investors.

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