

Rates Spark: Dovish sentiment with cuts on the horizon

The week started with a dovish backdrop spilling over from Fed Governor Christopher Waller's speech on Friday. The 2Y10Y UST curve disinversion seems to be holding up and we continue to see curves steepen further. Former ECB President Mario Draghi has called for €800bn of EU investment, but this has not translated into a notable market reaction



We're going into this week with a dovish market backdrop following a speech by the Fed's Christopher Waller last week

Dovish sentiment means UST disinversion is firming up

We're going into this week with a dovish market backdrop, as the Fed's Waller ended last week with assurances that the US central bank would act "quickly and forcefully" if the labour markets show significant deterioration. The dovish sentiment was also reflected in the firming up of the disinversion of the UST curve. Already on Friday the 2Y10Y curve disinverted, reaching a spread of 6bp at its peak, and thereby seems to have more definitely broken the zero line. On Monday, the spread settled a tad lower at around 4bp, but going forward we see the curve steepen further as the first Fed cut looms.

Bund curves also found themselves steeper, although the 2Y10Y is still some 5bp away from a

disinversion. This Wednesday, plenty of EUR issuance is scheduled, including syndication from the EU and Italy, at least temporarily adding to the steepening pressure from the backend.

Politicians making EU appeals

In the eurozone, the Bund curve bull steepened on Monday as markets digested Waller's speech that occurred after Europe's market close. The Sentix investor confidence data came in at a disappointing -15.4, well below the consensus of -12.2 and helped Bund yields lower on the day too. But overall risk sentiment seemed alright, with equities advancing on the prospect of incoming cuts.

In politics, we had an appeal by Draghi for additional EU investments totalling €800bn. Financial markets did not seem fazed by the proposal and even 10Y EU-Bund spreads continued to trade close to 60bp. In other news, France requested the EU postpone the deadline for filing plans to address the budget deficit. The deadline is set for 20 September, but given Prime Minister Michel Barnier was only just elected, the timeline seems tight. No potential new deadline was mentioned.

Tuesday's events and market views

In the UK we have jobs data, but given recent concerns about the quality of the data, the readings should have limited impact. The US will publish the NFIB small businesses optimism index, which is expected to remain unmoved from the prior 93.7.

The EU announced a syndication of a new 7Y and a 26Y tap, together amounting to an estimated €8bn. Italy also has a syndication scheduled, for a new 30Y BTP totaling €6-7bn. The Netherlands will auction €2bn of 27Y DSL, Germany €1bn of 5Y and 26Y green bonds, and the UK £0.9bn of a 21Y Gilt Linker. Lastly from the US, we have a new 3Y note for a total of \$58bn.

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