

## Rates Spark: Downside bias for market rates in near-term

US Treasury yields should have more room to the downside into year-end, but we'd have a floor at 4% for the 10yr yield. Any break below that and we've gone too far. For the eurozone we see plenty of risks for lower rates in the near-term, including growth worries, (geo)politics and the European Central Bank's keenness to get down to neutral



### US Treasury yields on a drift lower, as anticipated

The Trump trade is done for now. In fact it drifted away through the course of last week. While nominations for various posts are important, it's the actual policy agenda that really matters, and that's not a thing till 2025 (from 20 January to be exact). Over the coming couple of months the data released will have minimal to no impact from a future Trump. It's back to contemporaneous economy watching for markets, and that mostly reflects a weakening trend in the data.

The question then is whether yields can continue to drift lower. Our baseline view is they can, but we'd have an implied floor at 4% for the 10yr yield. The funds rate is not expected to get much below 4% according to the market discount. Given that, the 10yr yield should not really get below 4% at all. This mark this cycle is different from previous ones, where a new low is typically hit by the 10yr yield as the Fed continues to cut rates. Historically this has typically reflected a deepening in the rate cut expectations, whereas here, the degree of rate cuts discounted has instead been pared back.

We stick to a contrarian ease lower in the 10yr yield into year-end, and that could well continue into January. The push can come from some weakening in activity data. But there is also a drive from the likelihood for a go at a 50% retracement of the move from 3.6% to 4.45% for the 10yr yield. Leave trading the Trump oomph trade on pause till February 2025.

## Trump choosing market-friendly Treasury secretary

The announcement of Bessent as Trump's Treasury secretary was well-received by US markets. With a hedge fund background Scott Bessent knows not to upset markets and his ambition to reduce the government's deficit to 3% of GDP rhymes well with that. Equity markets opened higher, but longer-dated US Treasury bonds were the biggest winner here, with the 30Y yield down some 10bp on the day. The fiscal discipline was also seen in UST-SOFR spreads, which nudged up by some 2bp for the 30Y tenor, reflecting expectations of lower issuance pressure.

The spillovers to the eurozone were limited and the general attitude towards Trump's upcoming presidency is one of wait-and-see. With weak PMIs from last week still resonating, we think domestic growth concerns remain the focus for EUR rates for now. The Ifo survey on the German economy came in slightly better than expectations, but we have to say consensus was positioned already fairly pessimistic.

## Mostly downside risks to EUR rates in the near-term

Even though we think the 10Y euro swap rate will find a path higher throughout 2025, in the near term we find it difficult to identify drivers to start that upswing. Growth data is showing no signs of recovery, (geo)political risks are high and the ECB has made its willingness to cut policy rates clear. EUR rates have also been kept higher by a 10Y UST yield of 4.3%, but if that number decides to come down, we could see a 10Y Bund yield approaching closer to 2% again.

A dip in euro rates would be temporary in our view. Going into 2025 the catalysts for higher rates should start picking up, including a recovery of eurozone growth, higher US rates and QT progressing in the background. But with Trump's actual actions still up for debate, we doubt euro rates can make that move until after the inauguration in January.

### Tuesday's events and market views

There is little of note in the eurozone data calendars for Tuesday. However, we will have a busy slate of ECB speakers, certainly interesting in the wake of last week's very disappointing PMIs. Among others we will hear from the ECB's Villeroy, Rehn, Muller and Kazaks.

The US has the Conference Board's consumer confidence index for November up for release, next to new home sales data and later the FOMC minutes of the 7 November meeting in which the Fed cut rates by 25bp.

In primary markets Italy will be active with taps of a 2Y bonds and two inflation linked securities (up to €3.75bn in total). Germany will auction €4bn in 5Y bonds. After Monday's new 2Y note the US Treasury will sell US\$70bn in new 5Y notes and US\$28bn in floating rate notes.

## Author

### **Padhraic Garvey, CFA**

Regional Head of Research, Americas

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

### **Michiel Tukker**

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

### **Benjamin Schroeder**

Senior Rates Strategist

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