



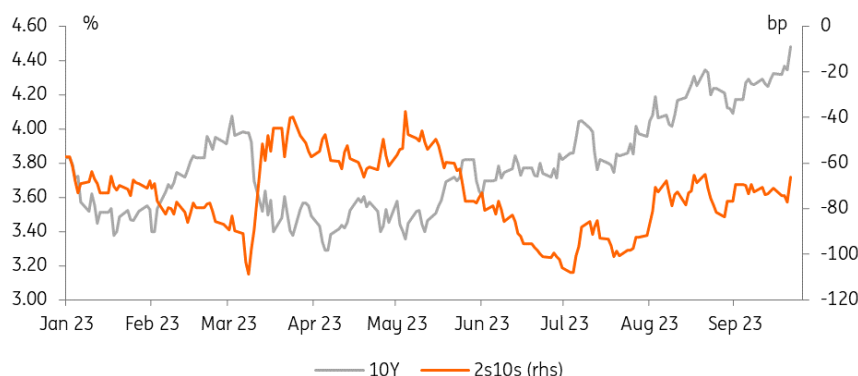
have hinted – may be another strategy to draw out the cycle. Especially given that anything involving the ECB’s balance sheet, including discussion about potentially adjusting the minimum reserve ratio, also ties in with the review of the operational framework, which is slated to conclude only by the end of the year.

The bullish steepening impulses that would typically unfold once cycle peaks have been reached are being held back by the optionality to do more that central bankers have retained. Still, we feel the room for policy rates to rise further is running out as headwinds are accumulating, but until markets see an actual smoking gun they remain more cautious.

Having been caught off-guard by the surprisingly hawkish Fed and its impact bear flattening, even if quickly reversed, is a case in point. In the meantime, the steepening impulses could continue to come from the back end as long as the data broadly holds, although the outright levels now look elevated at the back end. Still, the initial jobless claims data has just proven its relevance again yesterday, accelerating the steep sell-off in 10Y USTs towards 4.5%.

If cracks become more obvious, a brief bull flattening seems possible if central bankers are reluctant to embrace the signs of an impending downturn as they remain focussed on inflation risks – the effect of conducting policies via the rear mirror to which especially the ECB appears susceptible. The overly rosy outlooks from the Fed and also the ECB’s own very optimistic view make room for disappointments. But we feel these could be brief interludes only or even just play out in relative terms.

## The long end is pulling the curve steeper



Source: Refinitiv, ING

### Today’s events and market view

The US data have shown again what is relevant for the market. In the end, everything hinges on the data and whether it finally topples over. Today, the flash PMIs are the main event. Recall that in the US the larger surprise is the S&P PMI services last month had sent jitters through the market, but sentiment was probably also driven by the even larger disappointment in the European PMIs. For today, markets are seeing eurozone services slipping deeper below 50, while the manufacturing index is seen only slowly climbing out of its hole. All are still in recessionary territory.

Next week data will remain the main theme. In the US, the main focus is on the consumer with confidence readings as well as personal income and spending data – the consumer

story is a crucial input for the soft landing scenario. We will also get the PCE deflator, the Fed's preferred inflation measure. In the eurozone, the main highlight is the September flash CPI, and it should give us more reasons to believe we have already seen the last ECB hike.

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