Rates Spark: ECB June expectations firm up, US rates trail

It's the last day ahead of a long Easter weekend which covers month-end and includes a PCE release on Good Friday – markets can be more erratic than usual. Data wise, it could get interesting with more country CPIs out of the eurozone as ECB June cut expectations firm up again

Firming up June cut expectations in the eurozone and level watching in the US

Euro rates lead the way lower with only a subtle bull flattening on Wednesday. One could point to the less hot than feared flash inflation readings out of Spain, but generally it is difficult to single out a driver especially under market circumstances such as these ahead of a long Easter weekend including month-end and crucial data looming. Still, the 10Y Bund yield pushed below 2.3%, an area where it had only a brief foothold earlier in March. We had pointed out before that rate cut expectations around a June start of the ECB easing cycle looked better grounded in the data and official commentary than elsewhere – the June cut is now fully discounted again. We will be looking to the next country CPI data today to get more confirmation, but would think that outsized surprises would be needed to really shake up confidence here.

The US 7yr auction was solid, at almost a basis through the when-issued yield. Another indirect bid in the 70's %, which always helps. Hence the dealer bid was low, and overall it went down well. That's two in a row now, after yesterday's 5yr auction went very well. Clearly evidence here of interest in yield at current levels. That can spur more interest, and the backdrop in Europe where rate cut expectations harden by the day helps too. A long weekend for many ahead helps as well, as the safety of bonds is a reasonable means to sealing with investment decisions, even into what is expected to be a firm PCE number on Friday. Data is not pushing yields lower here, but ECB rate cut talk and decent demand for fixed income is helping to generate enough positivity around Treasuries.

US Treasury yields trailed somewhat behind Bunds, but there was also less in terms of data to digest. It still meant that 10Y yields slipped below 4.2%. While it is more or less in the middle of the broad 4.05% to 4.35% range staked out since the start of the year, it is a level that only the PPI data on 14 March (on the heels of the February CPI print) had catapulted us above with some conviction, and before that the hot January CPI print that came out on the 13 February.

Thursday could get more interesting again with the initial jobless claims and the final University of Michigan consumer sentiment up for release. Tuesday’s durable goods orders showed that markets can still react to data points even now if there is a larger surprise.

Thursday's events and market view

Among the US data we have jobless claims, home sales and the final Michigan sentiment numbers that will be watched. Jobless claims for March are expected to rise slightly from 210k to 212k.

In the eurozone the main focus will be country flash CPIs out of Italy, France and Belgium, although there are no consensus expectations available here. We also have German February retail sales, which are likely to improve, but the expectation for the year-on-year growth figure remains in negative territory at -0.8%. German unemployment claims come in later in the morning. From Italy we have confidence numbers and PPI figures coming in.

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