Rates Spark: ECB rate cuts pricing more in balance

A bearish bias in rates remains given sticky inflation. UK data resonated with that theme, as did the hawkish headlines from the FOMC minutes. Today's PMIs will bring growth outlooks into focus with a divergent dynamic emerging between the US and the eurozone. ECB cut expectations could be pared further, but weakness in the US could mean flatter curves

ECB rates pricing in between two and three cuts for 2024

Rates started out higher in yesterday's session, in part due to the upside surprise in UK inflation. While that pushed back the market's Bank of England rate cut expectations away from June towards a first cut in August or September and shifted Gilt yields up by more than 10bp at the front end, the elevated inflation print also resonated with more global concerns about sticky prices.

Be it for spill-over effects or domestic reasons, European Central Bank pricing for this year is starting to look more balanced in our view. Markets are still close to fully discounting a first cut in June, but with 65bp discounted by December, a third cut this year is now closer to a 50/50 affair.

The eurozone PMIs today should push in the same direction of a more balanced rate view. They have been showing signs of recovery for services, and in the manufacturing index we have seen signs of bottoming out. With the overall picture improving and given the already decent growth figure for the first quarter, this could be seen as limiting the room for the ECB to cut rates beyond June.

The ECB will also publish data for the eurozone' first quarter negotiated wages – one piece of data that the central bank had wanted to see before deciding on rate cuts and thus a reason to push communication for a cut at the earliest in June. Considering the degree to which the ECB has by now already cemented expectations around a June cut, it would need a big surprise for the official stance to shift. Other wage trackers such as Indeed's suggest that dynamics are going in the right direction, though.

Today's events and market views

Besides PMIs and eurozone wage data, we have US new home sales and jobless claims. The latter has been very stable in recent months and could surprise markets if a significant increase materialises. For the USl the Chicago activity indicator will be published for April, but the noise in the data makes interpretation difficult. In terms of speakers we have Chief Economist Huw Pill from the BoE, Francois Villeroy from the ECB and Raphael Bostic from the Fed.

In terms of issuance, the US will auction $16bn of 10Y TIPS. This follows on yesterday's 20Y UST sale which saw stronger demand.

Author

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com