

## Rates Spark: ECB unlikely to satisfy doves

The European Central Bank is not likely to cut at this meeting and will likely refrain from committing to future cuts. Markets are very close to pricing in two more 25bp cuts for this year, which limits the scope for the short end of the curve to come down. In France, the political challenges continue to evolve on a daily basis but markets remain unmoved



### ECB reluctant to meet dovish market expectations

The European Central Bank [won't decide to cut rates](#) at this meeting, but may tweak its communication about the strategy going forward. Our baseline remains an ECB that reiterates a data-dependent approach, which means no forward guidance for a September cut. Euro rates could see a nudge higher in this case as markets seem to be looking for an ECB that is moving closer towards an easing cycle. The 10Y Bund yield could see a nudge back towards the 2.5% handle.

For a more dovish market reaction, we would need the ECB to hint at upcoming cuts either in September or at least by year-end. Market pricing is already set for close to two cuts this year – 47bp by December – and we therefore see only limited room for the front end to come down. We deem a dovish tone unlikely, as the ECB is refraining from pre-committing to cuts since the last

one in June. Since June economic data has not shown major moves, the ECB would have little reason to deviate from their non-committal strategy.

## Fed speakers more vocal about incoming cut

In the US, the momentum is stronger towards a rate cut, and Federal Reserve members may be eyeing September as the right moment. Fed speaker John Williams highlighted that “a lot” will be learned between now and September, strongly reminiscent of the ECB's comments towards June. In contrast, Christopher Waller kept it vague, and envisions a rate cut in the “not-so-distant future” only if inflation comes in more favourable.

The Fed's Beige book released yesterday also told a tale of cooling activity, a softer jobs markets and easing price pressure, which our economist notes is consistent with the September cut that he continues to expect.

## French political chess continues but markets unfazed

In France, we've seen President Emmanuel Macron appointing a caretaker government, which will remain in place until a coalition can be formed and a new prime minister is assigned. The move helps Macron increase chances for winning the vote for the speaker of the National Assembly, as the 17 ministers with a parliamentary seat can now join the vote. The newly elected Assembly convenes today for the first time. Markets showed little reaction to the news and continued trading at a 10y OAT-Bund spread of 65bp, a level at which it has been trading for the past 10 days.

### Today's events and market views

The ECB meeting is today's highlight – but the market pricing for a cut is practically zero, so more attention will go to the central bank's communication. From the UK, we already had weekly earnings and unemployment figures, which came in in line with the consensus for a cooling jobs market and therefore also maintained expectations for the Bank of England to start cutting. US data includes jobless claims, the Philly Fed Index and the Leading Index. Jobless claims are expected to rise slightly from 222k to 229k.

Supply is relatively heavy. Spain is auctioning 6Y, 10Y and 13Y SPGBs for a total of €6.5bn, whilst France has scheduled 3Y, 6Y and 8Y OATs for €11.5bn and 4Y, 5Y, 10Y and 29Y of OATei bonds for €2.5bn. In the US, a new \$19bn 10Y TIPS will be auctioned.

## Author

### 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)

### Padhraic Garvey, CFA

Regional Head of Research, Americas

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

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