

Rates Spark: Euro rates don't feel like jumping around

New lows in implied volatility measures for euro rates suggest that markets are not overly sensitive to tariff-related news. A significant growth improvement is needed for a material push higher in euro rates, but this is unlikely to happen in the near term



We think the recent downward pressure on euro rates has gone too far

Euro rates unlikely to jump around on tariff-related news

Euro rates markets are unlikely to see much movement on tariff-related news and will probably need to get their cues from data for direction. The implied volatility measures on euro rates have continued to fall, with the 12-month MOVE index now at the lowest levels since 2022. This suggests that markets are not overly concerned about the ongoing trade tensions and that the potential upside and downside for rates is limited. And with the European Central Bank landing zone firmly anchored at 1.75%, there seems little room for surprises at the front end.

Instead, the next move in euro rates may have to come from the data. Economic surprises have turned more positive of late, which has helped the upward movement in rates. We think the drift up in longer-dated rates can continue, but the rise is likely to be gradual, with the 10Y swap approaching 3% by the end of 2026. A more near-term move higher would first need growth data

to show a material pickup, especially to offset the softer inflation outlook.

Treasuries range bound for now, caught between tariff uncertainty and supply factors

Meanwhile, US rates turned lower with the 10y Treasury yield sliding to 4.33%, close to where they started the week. There were no clear drivers since the minutes of the June FOMC meeting did not reveal anything new. A "couple" of FOMC members were open to rate cuts as soon as July, coming as confirmation of the later remarks by the Fed's Waller and Bowman. But beyond that, the FOMC showed that members saw "considerable uncertainty" around the timing, size, and duration of the tariffs' impact on inflation while seeing that "some reduction" in the policy rate this year would be appropriate.

The Treasury rally did find some support later in the day with the 10y note auction showing solid demand. Today's focus on the supply front will be the 30y bond auction.

Thursday's events and market views

There is not much data for markets to work with. The highlight will probably be the weekly US jobless claims numbers, but the consensus doesn't expect much change. In terms of central bankers, we have the Fed's Daly speaking on the US economic outlook.

The US will auction a 30Y bond for a total of \$22bn. Global fiscal worries are pushing up 30Y rates and therefore this auction will be closely watched for weakness in demand.

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