Rates Spark: Eurozone pushing for global euro, but not overnight

The eurozone is making a conscious effort to boost the global role of the euro, which could boost demand for eurozone bonds. At the same time, we are aware of the hurdles, and as dollars still dominate global trade, foreign central banks will continue to rely mostly on US assets. Besides, not everyone is convinced about the benefits of a stronger euro

The ECB is pushing for a stronger role for the euro, which could benefit the demand of eurozone government bonds

Strengthening the euro's role can help EGB demand

The global role of the euro is back in focus, but mostly as a long-term play – yet the positive momentum could already benefit European debt. Over the weekend, the European Central Bank announced an expansion of its repo lines to the global central bank community, which clearly signals the ECB's push to strengthen the euro's position. In theory, this could boost the demand for eurozone government bonds (EGBs), but we are aware that much more needs to be done to challenge the dollar's dominance.

A key reason for foreign central banks to hold US Treasury bonds as opposed to EGBs is linked to trade activity, something that won't change overnight. FX reserves mostly reflect the composition of a country's trade, and dollars are still simply the most widely used trade currency. US President Donald Trump's protectionist measures could reduce the role of the dollar in trade, but this is not something that will happen overnight – rather as more of a slow trend.

One could also have a more positive take and argue that the eurozone's conscious efforts to boost the euro's role can already translate into higher demand for EGBs in the near term. We see that EGB spreads are hitting new lows, suggesting healthy demand overall. In a deep-dive previously, we identified foreign buyers as playing an important role in absorbing the record amount of government supply hitting markets in 2026.

Many other major bond markets are facing their own challenges (think of the US and Japan), and the eurozone is therefore growing more attractive as a safe haven in a relative sense. Having said that, the eurozone will first need to figure out whether the role of a global reserve currency would be fully supported internally. On Monday, for instance, the French government called for an assessment of the negative consequences of a stronger euro.

Tuesday's events and market views

After this morning's UK jobs data showing lower-than-expected wage growth, the main focus will be on Germany's release of the ZEW survey. The consensus here is looking for some improvement on both the expectations (to another high since 2021) and current conditions components (still in deeply negative territory). The improvement could foreshadow the PMIs at the end of the week, where the expectation for improvement is more muted. Still, being in expansionary territory and in terms of direction, the outcomes would set a counterpoint to the current bullish trend in rates.

The US returns from a holiday, but the data front remains relatively quiet for now, with only the weekly ADP employment change, Empire Manufacturing and NAHB housing index of note. The Federal Reserve's Michael Barr and Mary Daly speak on AI in the economy and the labour market, a topic that could attract more attention given that the incoming Fed Chair Kevin Warsh is a proponent of the theory that the new technology will deliver significant productivity gains, allowing for lower rates all else equal.

Primary markets will see Finland auctioning 10y and 15y bonds for €1.5bn and the UK selling 2y and 6y gilts for a total of £1.25bn. Croatia has mandated banks for a new 10y benchmark bond.

Author

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

Michiel Tukker
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

Disclaimer