

Rates Spark: Eurozone to US gap to keep on widening

In the US, the 2yr auction was not great, and had evidence of a worryingly low official interest. Treasury yields remain biased to test higher. It's the opposite in the eurozone where we identify room for long end yields to fall further. Watch the Dutch parliament; it will discuss upcoming pension fund reforms – transition could be pushed back years



US 2yr auction not great, and contains some evidence of reduced official interest in Treasuries

The US 2yr auction tailed, by 0.5bp. Effectively a concession to secondary, but not a dramatic concession. What is interesting is the tepid indirect bid, which saw a 56% takedown. That may sound like a lot, but it's well below the 6mth average at 73%. The interesting thing about the indirect bid is it a barometer of central bank interest, and may be indicative of less official foreign demand.

In the current environment that's not good, given the acknowledged risk that some foreign central banks might hold back on their interest in Treasuries, as a kick back protest for the tariff angst. This

is purely speculative on our part, as we don't know for sure.

The direct bid took up the slack, coming at 30%, which is much higher than normal. This would typically include real money investors. So that's good; and understandable, given the stress risk assets have been under lately. The fact that dealers took down a tad more than normal in the end points to it not being an amazing auction.

More than ever, we need to separate Treasury yields from SOFR rates. Treasury yields can come under upward pressure for reasons related to the perception of America. Dollar weakness and the "sell America Inc." trade can drive this, with relation back to tariffs as the driver.

The SOFR curve, however, should be regarded as a pure reflection of interest rate expectations into the future. The latter should protect SOFR rates from being pulled dramatically higher should Treasury yields rise

Euro rates may want to test lower on downside data surprises

In Europe, markets will be closely eyeing any data releases that gauge the potential impact from Trump's tariffs and therefore the upcoming PMIs have the potential to trigger significant market moves. Lagarde reinforced this feeling by underlining the European Central Bank's "extreme" data dependency in the current environment. Don't forget that a single disappointing PMI reading last year was enough to add another rate cut last October. Tuesday's eurozone consumer confidence already came in [lower than expected](#) and may be an omen for what is to come.

Our thought is that the rates impact from data surprises can be quite asymmetrical, in the sense that downside surprises could trigger larger swings than vice versa. By dialling down the inflation risk narrative last Thursday, the ECB has opened the door for rates to test new lows. A rate cut for the June meeting is fully priced in, but for July markets have not decided yet. Whilst we don't expect the ECB to cut to 1.5% as markets now imply, we don't see reasons to push against that pricing just yet. Nevertheless, we especially see more room for the back end of the curve to come down on global risk-off events, and thus a flattener in euro space has our preference in the very near term.

Debate about Dutch pension reforms could trigger delays

A proposed legal change to the Dutch pension reforms has the potential to delay [associated flows in swap markets](#) by years. On Wednesday the proposed changes will be debated in parliament. If a majority for the amendment can be found in both parliament and the senate, then pension funds would need to offer participants an opt-out clause. As it currently stands, more than €500bn of assets would be moved from a defined benefits system to a defined contributions systems as of 1 January 2026. Around that transition date we would therefore expect significant swap flows as longer-dated fixed receivers would be unwound.

But if this change in rules makes it through parliament and the senate, then transitioning in just a few months' time would be unrealistic. No framework currently exists for splitting the pension pots between a defined benefits system and defined contributions system, which would then have to be invented from scratch. The Dutch central bank even warns that the delay could take many years. Whilst we deem the chance of passing the law through parliament significant, we doubt it can make it through the senate. As such, we still maintain the baseline that the majority of funds will transition on 1 January 2026 or 2027.

Wednesday's events and market view

The April PMIs for France and Germany are all expected to come in weaker, but the eurozone aggregate PMI is still expected to remain just above 50. Consensus sees a moderate weakening of the US PMIs, with the composite index coming down from 53.5 to 52.2. From the ECB we also expect the wage tracker readings, but with focus back to growth concerns, these numbers may not get much attention. Other data from the US includes the Fed's Beige Book, which could give insights into possible price hikes by businesses in reaction to tariffs.

Plenty of prominent central bankers are scheduled for speeches and discussions in Washington at the Institute of International Finance. Chief economist Lane from the ECB will speak, as will Knot and Villeroy. From the Fed we have Goolsbee, Musalem, Hammack and Waller. Bailey and Breeden from the Bank of England will speak.

Germany will auction €4bn of 10Y Bunds, and the US a new 5Y Note and 2Y FRN for a total of \$100bn.

Author

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and

which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.