Rates Spark: Expectations management week

Today's ECB minutes are just one data point that will help shape expectations ahead of the September 9th ECB meeting. We have seen no strong argument being made for tapering purchases so far. Meanwhile, bonds are running into a wave of profit-taking ahead of the Jackson Hole symposium.

The ECB is in for the long-run, it seems

The period from now to next Thursday, when the ECB's self-imposed pre-meeting 'quiet period' starts, is a relatively short one for officials to steer markets away from the current consensus. We understand that the view according to which Pandemic Emergency Purchase Programme purchases will continue to be carried out at an 'elevated pace' (we estimate roughly €80bn/month) for the remainder of the year is gaining in popularity. So far, there seem to have been no pushback against this view.

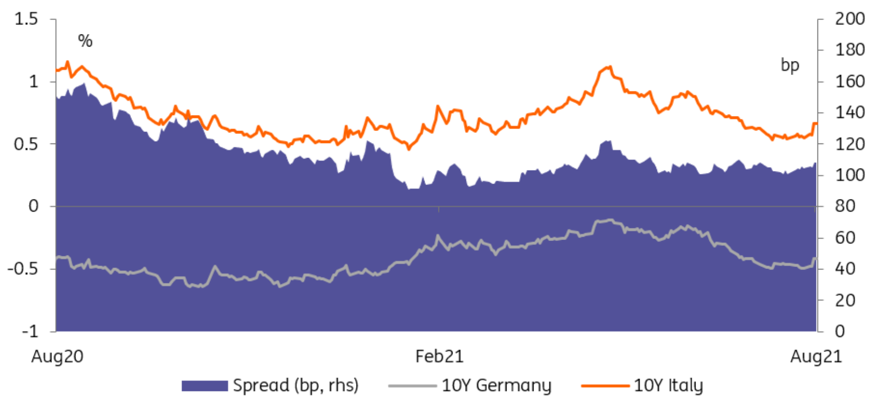
> *The ECB will ensure that asset purchases will retain their effectiveness*

In fact, chief economist Philip Lane went out of his way to reassure markets that the ECB will ensure that asset purchases will retain their effectiveness in a number of scenarios. This includes the case of any negative spill-over from the Fed's tapering. The comments, even emanating from a known dove, are significant. Not only do they underline the policy divergence between the Fed and the ECB (one reducing purchases, the other maintaining them), they also suggest that the ECB might increase them in reaction to the Fed tapering.

ECB support all around but bonds are running into a wave of profit-taking

Further afield Lane also made reference to net supply of government bonds as a guide for the amount of net purchases. We think he alluded to the possible decision to increase the pace of Asset Purchase Programme purchases after March 2022 when PEPP stops. Even without increasing the APP next year, central government and EU net supply next year should be largely mopped up by ECB purchases. An increase of APP from €20bn/month to €40bn/month would mean a reduction in the amount of bonds available for private investors to buy, and thus a net negative impact on yields, all else being equal.

EUR yields have sold off strongly this week, ahead of the coming wave of supply



Source: Refinitiv, ING

It makes sense for investors to shed their summer carry trades

This makes making sense of yesterday's fixed income sell-off a tall order. Our view is that it had nothing to do with central bank comments. Heading into the September wall of supply, and into the Jackson Hole event risk, it makes sense for investors to shed their summer carry trades. Why this would affect European bonds rather than their US peers is unclear but auctions and Jackson Hole make USD markets harder to read. There is also the fact that when near -0.5% (which is no longer the case after yesterday's sell-off), Bunds are a more logical short than Treasuries, as we highlighted yesterday.

Today's events and market view

In economics data, a number of European sentiment indicators will be published this morning. In the afternoon, the second reading of the US 2Q GDP will be the highlight, alongside jobless claims.

The ECB releases the minutes of its July policy meeting. The September one is exactly two weeks away and the pre-meeting quiet period starts next Thursday. This makes the minutes particularly relevant to the ECB expectation building exercise currently taking place currently (see above). We doubt they will feature much discussions on the fate of PEPP purchases in 4Q but opposition to QE forward guidance would be a strong hint that PEPP tapering is around the corner.

The barrage of ECB speakers will also continue in the afternoon with Francois Villeroy and Isabel Schnabel both due to speak.

The US Treasury will conclude this week's supply slate with the sale of 7Y T-notes. Italy will also tap primary markets, issuing 3Y and 5Y inflation linked notes.

The Fed's Jackson Hole symposium starts this evening in US hours. The key speech from Chair Jerome Powell will take place tomorrow but look out for a barrage of central banker comments on the margin of the event. Interviews with Esther George, James Bullard and Robert Kaplan are scheduled today.

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