

Rates Spark: Four ECB hikes and a bit more

Curves pivoting flatter fits a narrative further shifting towards growth concerns. As European Central Bank pricing gets more hawkish there is more than just the possibility of 50bp moves that could explain how 100bp in four meetings after June could come to pass, even if that is not our view



USD and EUR curves pivoting flatter around the belly of the curve amid weaker risk assets is a pattern that fits the narrative of market concerns having shifted toward rising risks to the growth outlook as central banks tighten policies amid high inflation.

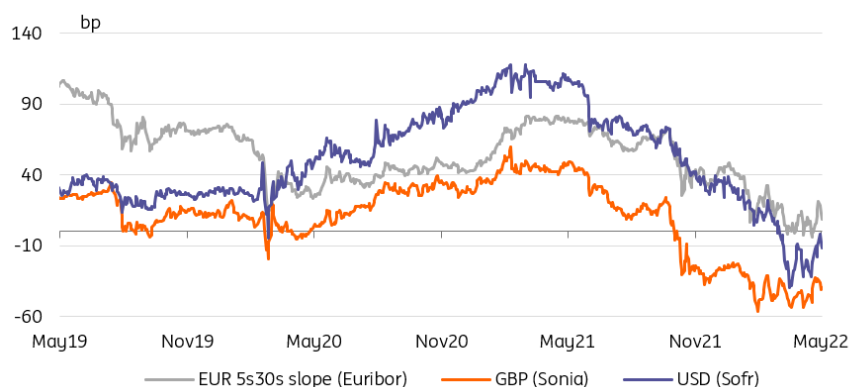
Continuing to lean more hawkish on the hawk-dove seesaw

In EUR, markets have further ratcheted up their ECB rate hike expectations. By the end of the year they expect an overnight rate more than 100bp higher from now. If one assumes that the ECB will use the June meeting to prepare the grounds for rate hikes by announcing also the end of all net asset purchases, then this would imply an expectation of 25bp hikes at each of the other four remaining policy setting meetings in 2022 – and a bit more.

25bp hikes at the four ECB meetings starting with July – and a bit more

Does that mean the possibility of a 50bp hike by the ECB is catching on? After all it had been floated by the ECB's Klaas Knot earlier this week, but his remarks may have been more about signaling a commitment to act forcefully. A sources article published yesterday outlined that a majority of the Council supported at least two 25bp hikes this year, but downplayed the notion of a 50bp move.

Curve flattening fits a pattern of growth concerns and tightening central banks



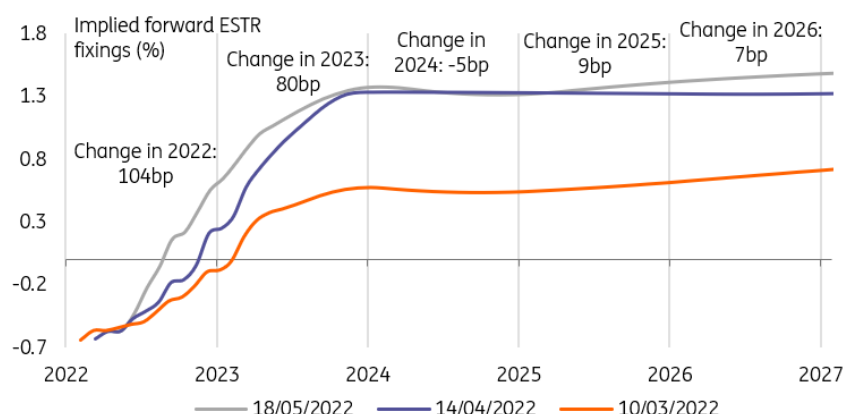
Source: Refinitiv, ING

Other factors driving aggressive market pricing

The aggressive market pricing will to a degree also reflect a higher risk premium amid volatile times, but we would also not exclude some uncertainty being reflected about the evolution of excess reserves in the banking system and how the ECB proceeds with the tiered deposit rate.

The expectation is still that larger early repayments of banks' targeted longer-term refinancing operations borrowings loom in the months ahead, although higher comparable market rates may have now made it more compelling for banks to hold on to the funds beyond June until the September repayment date. On the forwards strip for the ECB meeting periods markets see c.4bp higher overnight rates for the upcoming June meeting, though it may also include outside chances for an immediate ECB rate hike. It is conspicuous that the market prices the largest increase for September, a rise of noticeably more than 30bp while it is below 25bp for the other meetings this year save July.

More than 100bp from the ECB in the four 2022 meetings after June



Source: Refinitiv, ING

For September the market prices an increase of more than 30bp

Perhaps the ECB minutes to be released today will shed more light on the ECB's internal deliberations on what needs to be done in the face of rising inflation and the balance of risks tilting less favourably. But given how far official communication has already evolved since the April meeting to converge with the market view, the minutes should look dovish, not to say outdated. It was a meeting that still signaled a very gradual move. To be sure, our own expectation is also that aggressive market pricing will likely not be realised with our economists looking for three ECB hikes by the turn of the year.

Today's events and market view

In the Eurozone the ECB minutes of the 14 April meeting will take the spotlight amid an otherwise quiet data calendar. The minutes have seldomly been market moving, and they should appear especially outdated this time around as ECB communication has evolved quickly since then. We will also hear from the ECB's de Guindos and de Cos today.

The other market focus will be today's busy supply slate. France sells up to €13bn across shorter dated bond lines, including a new 6Y, and linkers. Spain reopens four bond lines including its 20Y green bond for up to €6bn in total.

The US sees publication of initial jobless claims and existing home sales.

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