

## Rates Spark: Geopolitical uncertainty no dampener to demand

Geopolitical headlines leave markets largely unimpressed, though some signs of nervousness are showing. They are not putting any dent in the primary market demand as the usual supply wave peaks. In the broader context, govies and SSAs still have some appeal



Primary market demand for European bonds remains resilient in the face of geopolitical tensions

### Some signs of nervousness, but no dampener on primary market demand

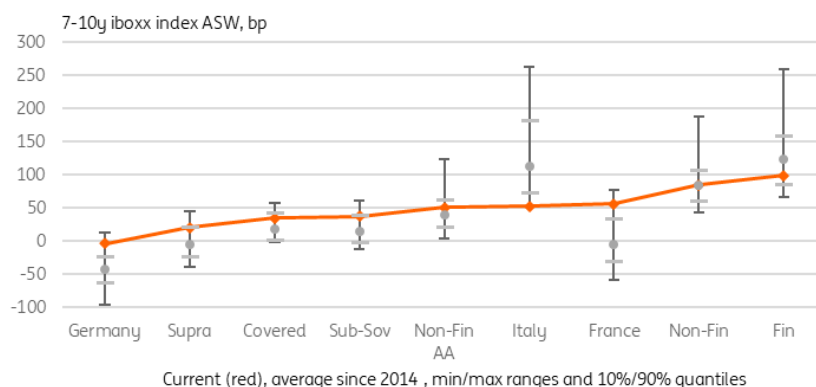
Geopolitics is dominating the headlines, and looking at oil prices as one gauge of risks in the Middle East, we do see that Brent oil has crept higher again of late, cumulatively 10% from the US\$60/bbl low at the beginning of this year. With Greenland also becoming an increasing issue of tension in US relations with Europe, even more uncertainty has entered markets since the start of the year.

Overall market risk sentiment seems relatively resilient, although equity markets are becoming slightly more nervous as the price for protection is creeping up again. Rates are moving lower with the 10y Bund yield approaching 2.8% while also slightly outperforming swaps. But everything considered, it is all well within recent ranges and also on the back of the macro data to support the general direction, thinking of, for instance, recent inflation releases on both sides of the Atlantic.

It also appears that investors' need to put cash to work dominates any geopolitical concerns. The primary market remains brisk in the second full week of the year. Even a new 20y French government bond of €10bn was taken down with very limited impact on spreads. The order book stood at €106bn, though not a record-breaking one as we have seen in other instances earlier this week. Still, given the political uncertainty that still remains around the French budget for 2026, it is a sign of at least relative confidence.

However, when looking at the valuations of government bonds, and indeed the broader sub-sovereign and supranational (SSA) sector, one needs to keep in mind their relative attractiveness and typically lower relative risk of the sector. For illustration, consider the 7-10y iBoxx bond-index spreads across different asset classes since 2014. True, Italian government bonds stand out on the positive end, and French spreads do reflect the political risk premia, but the typically riskier, broad corporate and financial credit indices trade at historically tight spreads, and more importantly, historically tight spreads versus the less risky SSA categories. In times of greater uncertainty, that makes SSAs look a little more appealing again.

## Govies and SSAs have some appeal in the broader context



Source: IHS Markit, ING

### Thursday's events and market view

After an upside surprise in UK monthly GDP estimates for November, the EU will publish trade balance and industrial production figures. All second-tier data from a market's perspective are good indicators of economic trends. From the US, we get the weekly jobless claims, which is getting more attention as the jobs market is cooling. November's TIC data should help paint a picture of the foreign demand for US assets, but 'selling America' fears so far seem overdone. Other data includes the Empire Manufacturing Index and the Philadelphia Fed Business Outlook for January.

In terms of sovereign supply, we have Spain with 3Y, 15Y and 46Y SPGBs for a total of €6bn.

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