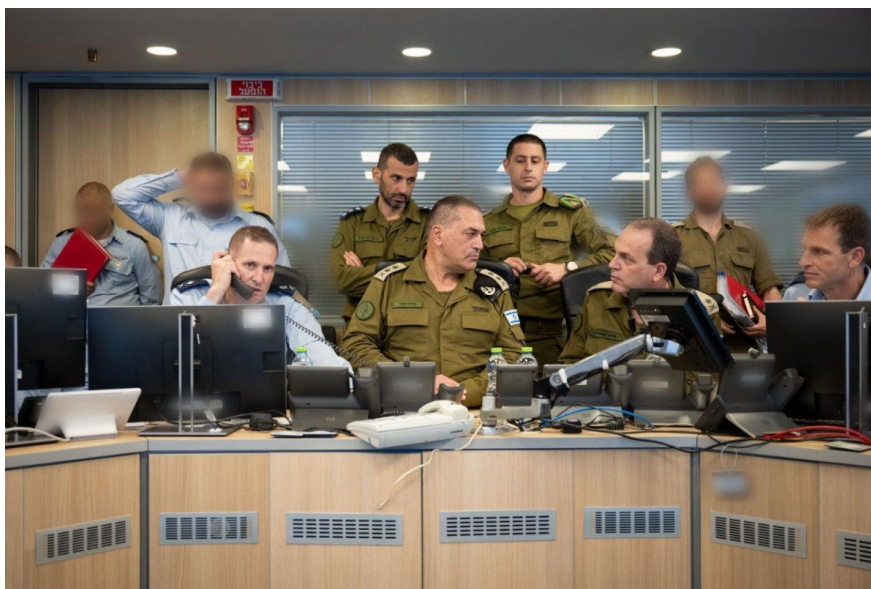


Rates Spark: Geopolitics add to bullish impulses

Israel striking nuclear sites in Iran only adds to a tactically bullish backdrop in Treasuries underpinned by recent auction and inflation data. Longer EUR rates are also somewhat more susceptible to bullish impulses from abroad again, but these alone have not been enough to push the 10y swap below its key 2.5% threshold



Israel Defense Forces overseeing strikes against Iran at the Israeli Air Force situation room

The impulse for Treasuries remains tactically bullish

Another strong auction on Thursday as the 30yr went very well. It saw a negative tail of -1.5bp (simplistically 1.5bp through secondary), and the overall auction metrics were good. This is a further bullish impulse for the bond market, as the mini-bull run continues. Certainly, it remains a tactically bullish Treasury market here. The PPI report helped, too. The 0.1% month-on-month outcome shows a clear containment in prices, at least for now. There is no denying that these headlines are bond bullish. We have a bearish view on bonds based on the tax-cutting / fiscal story, but when we see a tactically bullish impulse, we can't ignore it.

But note for later - if the market is going to react to inflation data like this as it has been, the question is how it will react when we get tariff-impacted inflation ahead and CPI heads for 4% year-on-year. Enjoy the bond bull phase while it lasts, but there are limits...

Bullish impulses from abroad not enough to take EUR rates below key levels

Even with correlations between US and EUR rates lower than usual over the past weeks, with little data to work off in recent days, EUR rates have been somewhat more susceptible to bullish impulses from abroad again. More so on the long end, starting off with the disappointing GDP figures out of the UK in the morning and later the lower PPI in the US. Overall though, by itself, this is not enough to move rates beyond recent ranges, and the 10y EUR swap rate bounced off the 2.5% level.

European Central Bank officials like Isabel Schnabel reiterated that the central bank's tightening cycle is coming to an end. Now that rates are seen at a neutral level, a pause looks very likely, though some officials do not want to take another cut explicitly off the table. The market will likely remain geared to at least one more cut given the benign inflation picture. It could be inclined to look at more cuts given remarks from the ECB's vice president that the central bank is now more concerned about threats to growth than about inflation, but it would probably take clearer signals from the domestic data for that to happen in a way that the short end outperforms the long end.

The notable outperformance of Bunds versus swaps over Thursday's session already hinted at a flight to safety as headlines pointed to tensions building around Iran.

Friday's events and market view

After the final inflation prints for May from Germany, France and Spain in the morning, industrial production data for the bloc covering the month of April is expected to show a month-on-month decline while the trade balance for the same month is also seen dropping back from a March spike.

Probably more relevant for near-term direction is the US data. The University of Michigan consumer sentiment index is seen improving somewhat in June from 52.2 to a consensus of 53.6. That would still leave it at a relatively subdued level, reflecting the still elevated inflation expectations component – the 1y inflation rate is seen coming at 6.4%.

Friday evening has scheduled rating reviews in the eurozone for Germany, Belgium, Finland and Slovakia. The one that stands out is Fitch's AA- for Belgium as it carries a negative outlook, but it was last affirmed only this February.

Author

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@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.