

## Rates Spark: Issuance pressure remains a thing too

The US re-funding announcement should see a repeat play of the current quarter. No increase, but also no let up in the supply pressure. The US third quarter GDP number should also show a firm reading for that quarter. That maintains the upward pressure for yields ahead of the US elections. In the UK, it's budget day; with higher Gilt issuance to boot



### Three big data hitters ahead over consecutive days, and then the election

Quite some volatility around some wild data releases characterised Tuesday's price action, with the net effect seeing the US 10yr hold in the 4.3% area (having topped out just short of 4.34%). We're on the run now to three key sets of data releases over consecutive days. The GDP report for the third quarter is expected to run in the area of 3%, which is strong. That keeps yields under rising pressure; the only constraining factor is the 3% growth number should in theory be broadly discounted. Thursday then sees the core PCE price index for September, with a 0.3% month-on-

month eyed; which is on the high side. Then the big unknown is Friday's payrolls number. It has the capacity to surprise to the downside, given the hurricanes and strikes seen through October. Running through all of this is the elevated discount for a Trump win next week. It's a tough cocktail to navigate through.

We maintain a preference to play Treasuries from the short side until there is a good reason to do otherwise. We suspect that Friday's payrolls report could well be that catalyst to pare back yields just ahead of the elections next week. If we don't get a taming impact from payrolls (and it comes in tolerably firm) the 10yr yield will be knocking on the door of 4.5% on the eve of the elections. We actually think that's bang on flat to an equilibrium 10yr yield. See why [here](#). A 10yr yield at 4.5% feels high, but it's actually not. And especially with the market discounting a bottom for the funds rate at around 3.5%. A 4.5% US 10yr yield equates to around 4% on 10yr SOFR, which is only 50bp above the bottom projected for the funds rate. That's a bearish tilt directionally. We're still prepped for a break back down in the 10yr yield, as has tended to happen in previous cycles. See [here](#) for more. But we need a valid excuse to do so first.

We also get the re-funding announcement from the Treasury on Wednesday. The baseline expectation is for confirmation of the provisional indications, which amounts to a repeat of the re-funding sizes done in the current quarter. That amounts to some US\$1.1tn in (non-bills) issuance, including US\$125bn to be done in the next run of 3's, 10's and 30's in the week ahead. Bottom line, no let up in the issuance pressure (as a kind fiscal deficit reminder to both presidential hopefuls).

## UK government to announce more investment expenditures

Chancellor Reeves will be presenting the UK government's budget, likely containing quite a bit of extra spending over the coming years. By adjusting the definition of debt, the Labour Party can free up significantly more budget, which it intends to invest for long-term economic growth. This also does not mean that Reeves intends to use all of the additional headroom, and instead only part may be put to use. Nevertheless, we do foresee increased Gilt issuance in the coming years.

Given the expectation of more government funding was already circling the news for some weeks now, we don't anticipate much of a surprise to markets. Gilt yields have moved significantly higher over the past week, yet this can be explained by the sharp increase in UST yields. One could argue that swap spreads have widened on higher supply expectations, but this trend has already been going since Quantitative Tightening started.

The risk of another Liz Truss moment seems contained, as politicians are well aware not to make the same mistake of broad unfunded tax cuts, challenging fiscal credibility. The pound is showing no signs of a risk premium and also the 5s10s curve seems to be trading fairly sideways over the past month. Overall we do think Gilt yields are on the high side, but to bring these lower we would need to see macro data deteriorate and lower inflation numbers. The details of the budget should have little impact on the broader direction of GBP rates.

## Bunds are also feeling higher supply prospects

Supply is also the underlying story in EUR rates which saw the 10y Bund ASW tighten another 5bp on Tuesday. The 10Y Bund now trades only 6bp below swaps, or more than 7bp above OIS. The prospect of elevated issuance paired with the ECB rolling off its bond holdings is upholding the pressure on Bunds and many have been pointing to USTs trading noticeably above SOFR – in 10y some 50bp.

One can argue that if one takes the weighted average ASWs of Eurozone government bonds, then we are already seeing an ASW structure similar to the US, even cheaper and steeper. However, Bunds – AAA rated and highly liquid, supported by a futures market – make up less than 20% of the €9.6tn eurozone government bond market and therefore a considerable premium relative to its bloc peers should be warranted. That does not rule out that Bunds can still cheapen further, especially from the longer end.

## Wednesday's events and market view

Outside of the UK, the data moves into the spotlight. In the eurozone first countries will publish their flash CPI estimates for October, where a slight uptick in inflation on the back of base effects is still the consensus. We will also get the advance third quarter GDP figure for the bloc. With the ECB's Villeroy, Schnabel and Nagel, Wednesday's slate of speakers is leaning more hawkish.

US releases feature the ADP payrolls report where the market is bracing for growth slowing to 111k from 143k. The third quarter advance GDP will also feature the quarterly core PCE ahead of Thursday's monthly PCE data for September.

In primary markets, Italy will sell 5y and 10y bonds as well as a floating rate notes for a total of up to €9bn.

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