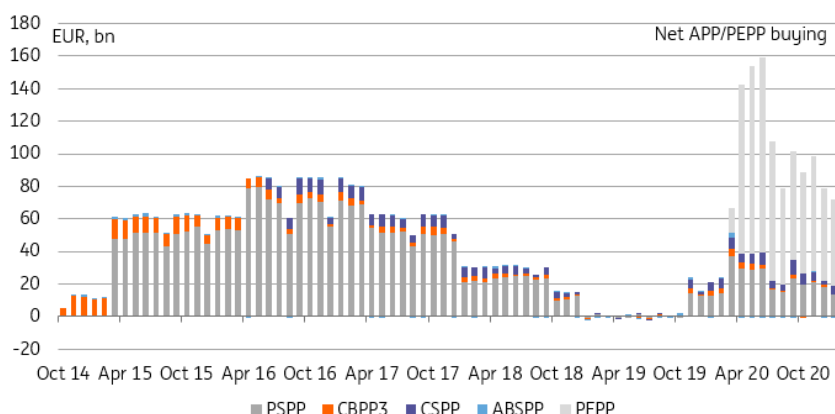


## Rates Spark: glass half full

We expect the optimistic tone in global markets to continue today. EUR supply also adds upside to the long-end. Wider USD-EUR rates differential and steeper EUR 10s30s seem like the main themes in rates markets.



Source: ECB, ING

### Glass half full markets

As vaccination programmes accelerate in the US and the UK, and as fiscal talks progress in the US, EUR markets remain focused on heavy supply from sovereign issuers. The drivers are different: macro vs technical, but we think the end result will be similar: higher rates. As we expected US data so far this week paint a picture of resilience, meaning the reopening of the US economy, when it occurs, will not be from too low a base.

#### *Conditions are ripe for long-dated primary market activity*

Deals mandated yesterday, Belgium 50Y and Finland 30Y have in common their long maturity. They validate our view at the start of the year that conditions are ripe for long-dated primary market activity. The case for long borrowing from issuers is clear enough: the curve is historically flat and sovereigns are keen to reduce refinancing risk on the record borrowing that the pandemic has caused.

From the point of view of buyers, investors have come to term with dim long-term growth and inflation prospects, thus justifying little additional premium at the long-end of the curve. The ECB's purchases are also reducing the amount of debt available for investors to buy in most Eurozone sovereign markets, so we expect that some investors will choose to gain exposure at the long-end of the curve where smaller nominal purchases are necessary to achieve a certain risk exposure, and where yields are higher.

## ECB doing more with less

The outlook for ECB purchases itself is mixed however. If total net purchases across programmes (APP and PEPP) was slightly higher in January than in December, net purchases under PEPP were actually the lowest since the programme's inception in March last year, at €53bn. The ECB has signalled at its January meeting that it has the possibility to not spend the entire €1.85tn envelope. At the January pace, it will take 19 months to exhaust it in full, or until August 2022 inclusive. This compares with a stated end date of March 2022. In short, the ECB is on track to under-deliver on its announced purchases, by around €265bn.

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*There appears to be no blaming the ECB for not wanting to damage liquidity*

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The good news is that markets seem fairly relaxed about it. There appears to be no blaming the ECB for not wanting to damage liquidity by removing even more bonds from the market. The reduction in the pace of purchases is perhaps not surprising when one considers that the ECB is simply aiming to maintain low rates and spreads, rather than to push them even lower. Provided the ECB remains credible in enforcing favourable financing conditions, something that is much more easily achieved for sovereign bond markets than for household credit for instance, then private investors might be happy to continue buying long-dated syndicated deals like today's.

## Today's events and market view

Scheduled Euro government bonds supply only consists of the launch of a new 2Y Schatz from Germany but we expect long-dated deals from Belgium (50Y, we expect €4-5bn in size) and Finland (3Y, €3bn) to price.

Unlike the rest of the week, data will mostly emanate from the Eurozone today, with French CPI, Italian and Eurozone GDP. The French price index will provide a fairer depiction of inflation dynamics than the German one as it is not affected by any VAT hike. As for GDP, Spanish, French, and German gauges surprised to the upside last week.

Whilst we do not see much new driver to add momentum to the move higher in rates specifically today, the tone in global market strikes as us as more upbeat than last week. The focus on US fiscal stimulus could add upside to global yields, and help resume the USD-EUR rates widening trend.

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