

Rates Spark: Growth concerns overtaking sticky inflation

The back ends of curves have been dipping as growth concerns in the US and eurozone lurk. Second-quarter eurozone GDP figures are expected to remain in positive territory, but only by a small margin. The US re-funding announcement is due on Wednesday, teed up by the latest pre-funding data issued yesterday. Steady as she goes until payrolls on Friday



US re-funding data is good, but should still maintain an elevated issuance pressure

Between July and September 2024, the US Treasury expects to borrow US\$740bn through bond issuance, assuming an end-September cash balance of \$850bn. The borrowing estimate is \$106bn lower than announced in April 2024, largely due to lower Federal Reserve System Open Market Account (SOMA) redemptions and a higher beginning-of-quarter cash balance. While this is a positive, it may not necessarily translate directly into lower re-funding numbers to be announced on Wednesday. The borrowing estimate for the same quarter last year was \$1010bn, but on a lower cash balance of \$567bn. Still, this easing is good news. And \$565bn of bond borrowing is

anticipated for the final quarter (preliminary estimate).

Before yesterday's estimate, the Treasury Borrowing Advisory Committee had an estimate, and that's basically a repeat of the rhythm we saw through the second quarter. For 2yr's it's \$69bn per month through August-October. For 3yr's it's \$58bn per month. For 5yr's it's \$70bn per month. For 7yr's it's \$44bn per month. Then the 10yr eases from \$42bn in August to \$39bn for September and October. The profile has the most pressure on the front end, which is typical. But the twist has been the change in issuance, where most of the increases in issuance have been centred in shorter maturities, helping to take pressure off longer-dated yields. Following yesterday's update, there are only downsides to these estimates.

We're also cognisant that the debt ceiling, while not an issue now, will be one as we progress through 2025. This is because the debt ceiling is suspended through to the end of this year, and then gets re-set at the beginning of 2025. That means it's not an immediate issue, but would need to be addressed by mid-2025 to prevent the Treasury from having to go through another round of extraordinary measures. The reason this is important now is the fiscal data released yesterday show a cash target of \$700bn by the end of the third quarter as a backdrop to the re-funding numbers. It suggests the maintenance of a decent cash balance to provide comfort through subsequent quarters.

Recession risks as a possible incentive for ECB cuts

Bund yields started the week lower in anticipation of a week full of important data points from both the US and the eurozone. The back end of the curve led the decline, with the 30Y yield down some 5bp. With no single driver, the move should be seen in the context of a broader fall in risk appetite as we approach a rate-cutting cycle. A rise in volatility is enough to see the demand for Bunds increase and for slightly wider EGB spreads.

Eurozone GDP data for the second quarter will be the first highlight. At a consensus of 0.2% quarter-on-quarter growth, the expectations are low and not much is needed to re-enter recessionary territory. The European Central Bank has focused more on price pressure dynamics than growth concerns so far, but that balance could be tilting. In its last meeting, the ECB highlighted near-term growth concerns and thus markets will be watching for reasons to price in accelerated cuts. Having said that, French GDP numbers this morning were slightly better than expected and keep pointing at a gradual recovery.

Germany and Spain will also publish their CPI numbers. For Germany, the headline inflation number is estimated to remain at 2.5%, not too far from the ECB's target. Spain's CPI is still higher at 3.6% but is expected to come down to 3.3%. Inflation is headed in the right direction, albeit the progress is slow due to sticky components. Therefore the growth numbers this week may prove more important as a rise in recessionary risk, be it from the eurozone or the US, will increase the bias towards cuts.

Today's events and market view

Besides eurozone GDP and inflation data, Spain and Italy will publish their GDP growth figures for the second quarter. All quarter-on-quarter estimates are in positive territory but by small margins. The US will publish consumer confidence data and the JOLTS job openings for June. The job openings are expected to come in at 8055k, lower than the 8140k last month.

For issuance we have Italy auction 5y and 10y BTPs and an 8y CCTeu totaling €9bn together. The UK has scheduled a €4bn 10y Gilts auction.

Authors

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

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