# Rates Spark: Hard to make high conviction central bank calls

The ECB looks unlikely to hike in April, but markets price 25bp by June and at least one more hike later in 2026. While largely driven by oil prices, its extreme volatility can also distort rate pricing and liquidity. Still, positive geopolitical headlines and the latest dovish ECB signals have lowered the April odds of a hike to c.25%


We expect the ECB to remain on hold at its April meeting, despite the movements in oil prices

## Not an easy job to predict the next move for central banks

The ECB is clearly not set on raising policy rates this April already, but market expectations remain high for a hike in June. Currently, a full 25bp of hikes is priced in by June and at least one more hike by the end of this year. Much will depend on the oil price, however, because for every $10 increase in the oil price, the market's hiking expectations increase by roughly 25bp. Similarly for the Fed, and especially the Bank of England, the correlation between policy expectations and oil prices remains very tight. With current volatility in oil markets, a $10 move can materialise in just one day.

The volatility in short-end rates makes it difficult for market players to take positions, potentially distorting the relationship between actual expectations and market pricing. Even if an investor has a high conviction view of a central bank's reaction function, taking a position is risky, as a single geopolitical headline can trigger a sharp jump in the wrong direction. These dynamics can result in lower market liquidity, wider bid-ask spreads and less price discovery. In effect, the relatively hawkish pricing of central bank reaction functions may not fully reflect market expectations.

Nevertheless, markets continue to guess the direction of policy rates and the many central speakers slated for this week can help. On Tuesday, Lagarde and the IMF emphasised the risks to growth dynamics in the current environment, which all else should temper rate hike expectations. The focus from the ECB's president on data dependency also suggests April might be too early for a change in policy. Together with another drop in oil prices, it has helped reduce the probability of a rate cut in April to around 25%.

## Wednesday's events and market views

From the eurozone we have industrial production data, but given the data is still from February, this shouldn't be market moving. From the US, we have weekly mortgage applications and the Empire manufacturing index. The Empire index is from April and could give some timely insights into how the high oil prices are impacting the economy. Later in the day we have the Fed's Beige Book, which provides valuable qualitative commentary about the state of the economy.

In terms of central bank speakers, we have the ECB's Lagarde, Schnabel and Villeroy. From the Fed we have Barr and Bowman, and from the BoE we have Bailey.

Supply includes an Italian syndication of 10Y BTPs for an estimated €15bn and a 20Y BTPei for c.€5bn. Germany will auction 22Y, 26Y and 30Y Bunds totalling €3bn.

## Author

**Michiel Tukker**
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

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