

Rates Spark: Harris win preferred by USTs

Rates remain under downward pressure. Today's US CPI should give the Fed free rein with next week's likely rate cut. Kamala Harris, seen as the winner of last night's presidential debate, also favours rates downside, although the presidential race is still very much open



Consensus expects the core CPI for August to come in at 0.2% month-on-month

Betting odds now favour Kamala as winner after last night's debate

Downward pressure on rates was maintained on Tuesday. The 2s10s Treasury curve maintained its single-digit upward slope as 2y yields dipped below 2.6% again, the lowest since the second quarter of 2023. One factor driving down rates was the sell-off in oil prices. That is also reflected in the continued slide of inflation forwards – in the US, where the 5y5y has slipped towards 2.35% and similarly in EURs where the 5y5y inflation forward dipped to 2.06%, is already plugging new lows since September 2022.

For the upcoming central bank meetings, the ECB tomorrow first, this backdrop could provide more room for dovishness. However, the market has already priced in aggressive expectations, anticipating the ECB to lower the deposit rate to 2% or even less by the end of next year.

The first US presidential debate between Kamala Harris and Donald Trump was in the spotlight overnight. Commentators generally saw Harris as winner of the duel, and also betting

markets are putting Harris now slightly ahead in the presidential race. An Instagram endorsement by Taylor Swift after the debate helped Harris too. Markets reacted with a modest risk-off and rates continued to edge lower, but the outcome was less clear cut compared to the Biden-Trump debate.

USTs to lose from Trump presidency, impact on Bunds more ambiguous

Of the two candidates, a [Trump win would be most inflationary](#), and thus worse for USTs in our view. Tax cuts and import tariffs would add to price pressures and contribute to a higher terminal Fed rate. A clean sweep scenario, one in which Trump wins both the presidency and Congress, would allow the most drastic tax cuts. If he only manages to win the presidency, then the focus would be more on foreign policy, which would likely incite trade tensions with Europe and China, and undoubtedly lead to increased tariffs.

For Bunds, the impact of a Trump victory is more ambiguous. Trade tariffs would have an inflationary impact, but at the same time would be a drag on the economy, thereby lowering rates. Heightened geopolitical tensions would also weigh on global yields. At the same time, higher UST yields will have global spillovers and also Bund yields will feel the pull-up.

US CPI numbers should reassure Fed's pivot to focusing on the labour market

Consensus expects the core CPI for August to come in at 0.2% MoM, which would be a good number for the Fed to commence its easing cycle. Only a few economists forecast a 0.1% or 0.3% reading on Bloomberg, reflecting high confidence in the estimate. Also keep in mind that some of the components of the CPI calculation, e.g. PPI was already published earlier. Looking ahead, recent falling oil prices will help nudge inflation further in the right direction.

With the Fed's increased focus on the deteriorating labour market, we do not think the CPI number will have a material impact on rates markets (bar a big surprise). A cut by the Fed next week is certain, but whether the cut will be 25bp or 50bp is still undecided. We think a 50bp is more likely, but this will then have been driven more by the recent payroll numbers than the CPI number today.

Wednesday's events and market views

US CPI numbers are the main release to watch. In terms of supply, we have a UK 10Y Gilt auction for £3.75bn and Germany with a 10Y Bund auction totalling €4.5bn. The US will auction \$39bn of 10Y notes.

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