

Rates Spark: High issuance amid light data calendar

In addition to a busy corporate issuance slate, France, Austria and Portugal are taking advantage of a quiet week and have announced syndicated deals. From the US, we will be looking at today's 20Y UST auction. The Federal Reserve needs better inflation data to start cutting and thus we maintain an overall tactical bearish bias



Issuers are taking advantage of little news flow

The start of the week has seen rates move in a bit of a sideways range with little news flow to provide direction. Monday's European holiday saw US rates trading under pressure from a busier corporate issuance slate followed by some retracement of said move on Tuesday. This morning, the higher-than-anticipated UK inflation figures provided a bearish impulse. But also given the issuance pipeline, we think markets could well resume their bearish bias. In the eurozone, France, Austria and Portugal have used the opportunity of a quieter auction and data schedule to announce new syndicated deals. In the US, we will be looking ahead to tonight's 20Y bond auction, which tends to be a trickier point on the curve to sell bonds.

There were a couple of Fed speakers yesterday which confirmed our view that last week's inflation data was a step in the right direction but far from gave the all-clear to price in more and/or timelier Fed cuts. That can still leave rates to test the upside again within current ranges, even though we do see lower inflation and slowing activity later this year precipitating a series of cuts starting in September.

The Fed's Christopher Waller, for instance, said several more months of inflation data were needed before considering a rate cut, at least in the absence of any significant weakening in the labour market. Raphael Bostic reflected a similar view – “one number is not a trend” – and sees a cut not before the fourth quarter. The market is currently still leaning towards a first cut already in September (18bp priced) with a second cut only fully priced by January next year.

Today's events and market view

It is a quiet day in terms of data. The main events are in the US with mortgage application data and existing home sales. Later in the day, the Fed will publish the minutes of the 1 May FOMC meeting which saw Chair Jerome Powell with a somewhat more dovish tilt. From the Fed we only have Chicago's Austan Goolsbee speaking.

The focus today is the primary market. Next to the scheduled auctions in the eurozone, where Germany sells €4bn in 10Y bonds and Greece also reopens the 10Y for a small clip of €250m, the highlights are the upcoming syndicated deals mandated yesterday by France, Austria and Portugal. They should all be today's business. France will sell a new 20Y inflation-linked bond, Austria will sell a new 15Y bond while Portugal will be in the market for a new 30Y bond. The UK sells £4bn in 5Y gilts.

Over in the US, eyes are on the US\$16bn new 20Y bond sale.

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