

Rates Spark: Is sell America Inc. now a thing?

US Treasuries are not behaving as a safe haven. They have cheapened versus the risk free rate, in a significant manner. The 3yr auction was a mess. There is now heightened nervousness ahead of the 10yr auction. This seemingly 'sell America' trade, is one that's now dominating the rising recession risk theme that typically would have pushed yields down



The 'sell America Inc.' notion is proving to be a pain trade for Treasuries

US Treasury yields have marched higher again – what's going on?

The impact effect of tariffs was the discount for a recession and more rate cuts, and that combination was deemed a good rationale to buy bonds. It still is, and still could be in months to come. But the more troubling narrative of late is the notion of what we call a 'sell America Inc.' risk. It's tough to get a gauge on this, and by the way it does not have to be selling by foreigners, it can also be from domestics. What we can say with certainty is Treasury prices have been bullied lower in the past few days, and there has been a near 25bp spread underperformance versus German Bunds.

Moreover, the US 10yr swap spread has shot out to 60bp. That's a material cheapening in Treasuries versus the SOFR risk free rate curve. This is something that we had feared could have

happened. That, plus the fiscal deficit plus elevation inflation expectations was the combination that we initially suggested could drive the 10yr to 5%. We never took that off the table completely, but had reverted to a more bullish tactical call for Treasuries as the recession risk became elevated. See more [here](#).

Clearly there are potential wild extremes in play here. If we were to slip into recession there is a path there for yields to revert lower. But the here and now is painting Treasuries as a tainted product, and that's not comfortable territory. And not for the Trump administration that had championed previous falls in Treasury yields as something to cling to as a positive offset from the tariffs narrative that was hurting risk assets. Well no more it seems. Treasuries are proving to be a pain trade too.

As a barometer, Tuesday's US 3yr auction tailed badly, by almost 2.5bp. Effectively coming at a concession of that size to the secondary market. The primary dealers also had to take down 20% of the issue, which is high. Treasuries were not trading great into the auction, but the poor outcome gave them another kick. The important thing about the 3yr is it's a line that global central banks tend to lap up. There was a decent indirect bid into the auction, but not aggressive enough.

And we can't ignore the idle talk of century bond swaps and / or a user fee on Treasuries, which clearly paints a negative underpinning for holders. See more [here](#). As we've noted before, Treasury holders don't want drama. They want simplicity, as a means to seeking haven from risk product when things look bad. The last thing they want is complications. The infamous Mar-a-Largo report is one where such aforementioned complications were heralded as at least up for discussion. Not determinative of the poor 3yr auction, but certainly has been an underlying discussion point that does not help.

There will be nervousness into Wednesday's 10yr auction, especially as this is the benchmark line. The theme here is a troubling one for Treasuries.

As tariffs will start to bite the focus is on ECB cuts

Broader market tensions did ease somewhat initially, although in the end EUR swap curves still bull flattened on the day. After all, tariffs will come into force on Wednesday with no indications of delays or deals to suggest otherwise. It appeared that the market was putting some hope on the growing list of countries wanting to negotiate, which is touted by the Trump administration.

Still, there will be an initial negative impact. The EUR market remains squarely focussed on an April European Central Bank cut. These expectations were confirmed by comments from ECB officials such as Lithuania's Simkus, though he did push back against the idea of a 50bp cut. Overall the market is still seeing the ECB cutting to at least 1.75% this year.

In contrast to swaps, the bear flattening of the Bund curve was a reflection of the swaps spread dynamic reversing – risk sentiment eased from the extremes and the financial market's plumbing has held up. The 2y Schatz yield rose by 6bp while the swap rate declined 2bp, 10y Bund yields rose 2bp while swap rates declined by more than 3bp. As a result, the 10y yield sits back at around 5bp above swaps and – if broader markets remain calm – we think it can stabilise in the 5bp to 10bp area near term. We think it is too early for the market to think about the looming supply impact from the German fiscal plans with the tariffs really coming into force now.

Wednesday's events and market view

There is no data of note scheduled for release in Europe leaving the focus squarely on the response to the US tariffs, which will come into force on Wednesday. ECB speakers for the day are Knot, Villeroy and Cipollone.

In the US the main focus will be on the FOMC minutes of the 19 March meeting, a bit outdated but they should confirm the message that the Fed is in no hurry to act for now. The Fed's Barkin is the only scheduled speaker for the day.

In primary markets Portugal is slated to reopen 5y and 12y bonds for up to €1.25bn in total. The UK auctions £4.5bn in 5y gilts, while the US Treasury will sell US\$39bn in 10y notes.

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