

Rates Spark: Kicking off a data-driven week

Euro markets will be watching domestic and US data this week for signs of deterioration in the aftermath of Liberation Day. The European Central Bank (ECB) is allegedly looking into simplifying banking regulation. We'll be following this closely in case banks' balance sheet capacity is impacted



Markets have plenty of data to watch this week for signs of weakness in the wake of Trump's tariff announcements

Euro rates will focus on domestic data but cannot ignore US

Euro rate markets are keenly awaiting economic data in the coming days to validate the more dovish sentiment we've seen lately. Growth concerns are pushing inflation risks to the background, and the eurozone consumer confidence index may get more attention than Spain's inflation numbers. Having said that, if we were to get considerable upside inflation surprises this week, then the focus may be forced into a more balanced stance again.

But perhaps it's going to be US data that will take the lead in European markets this week. While the spillover to the front end of the curve from the US has been limited, global risk sentiment remains a driving factor for longer-dated rates. US payroll data (scheduled for Friday) was one of the most important drivers for 10Y EUR rates in 2024. Over the past weeks, Bunds have performed

very well as a risk-off asset, so they may be the preferred hedge for investors to hedge downside risks.

ECB is seeking to simplify banking regulation, but details remain unclear

Besides data, we are also looking out for any concrete steps to simplify the ECB's banking regulation. A task force has supposedly been organised with central bank governors from Germany, France and Italy. The details and timelines are unclear, but from a rates perspective, we'll be paying attention to changes that could free up banks' balance sheet capacity.

In the US, the discussions on excluding Treasuries from the leverage ratio calculations seemed to have had a material impact on the spread between government bonds and swaps. With the ECB regularly looking to ensure a level playing field, this may be an area of interest. If this is indeed a direction taken, then we could see increased aggregate demand for European government bonds, with a tightening effect on the spreads versus Bunds and swaps.

Tuesday's events and market views

Today, we start with Spain's inflation, which sees the headline number coming down from 2.2% to 2.0%, right on target. But the core component is expected to turn hotter, with a consensus of 2.3%. Spain's preliminary first quarter GDP numbers will also be released, where the consensus is for a healthy 0.7% quarter-on-quarter growth.

Eurozone consumer confidence numbers are another highlight, given that these should start capturing the impact of US President Donald Trump's tariff actions.

From the US, we have JOLTS job openings from March and the Conference Board consumer indices for April. These may also provide a glimpse of the tariff impact.

In terms of supply, we have two syndications scheduled: France with a 24Y green bond for an estimated €7bn and Finland with a 10Y RFGB for around €4bn. Then we have the UK, with a 30Y Gilt linker auction for £0.9bn. Lastly, Italy will auction 5Y and 10Y BTPs, and an 8Y CCTeu for €9.5bn together.

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