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RATES SPARK

Rates spark: Liberation hangover

Rates markets trade with a bullish tilt in the wake of the tariffs. Not all is clear, as trade negotiations and deal-making have yet to unfold. But uncertainty itself may already be enough to weigh on sentiment. Weaker US jobs numbers would come as a confirmation, while somewhat stronger numbers could be dismissed as backward looking



Fed repricing is providing room for longer end yields to drop even further

The Fed repricing is already providing room for longer end rates to drop lower

US rates markets continued to reprice in the wake of “Liberation Day”. Disappointing ISM services data adds to the gloom, with all eyes now turning to the jobs data ahead. The market is now pricing in 100bp of Federal Reserve rate cuts through January next year. Not starting immediately in May, but with a firm view that the next cut will arrive in June, giving the Fed time to read the data and adjust its bearings.

For the long end, the repricing of the Fed is relevant. It means that the trough in the SOFR strip, which we thought provided an implicit floor to long-end rates, is dropping. It has come down from the 3.5% area to now around 3.1%. At the long end, the 10Y US SOFR rate has come down to below 3.6% from a peak of 3.95% at the end of last week. As a result, the 10Y UST

yield just about broke below the symbolic 4% handle.

The market's Fed view implies delayed impact expectations. It can mean that the rates market will continue trading with a bullish bias for now. A stronger jobs market will likely have less impact than a confirmation of weakening prospects that still have room to morph into a recession view. And for today our economist does see the risk of a weaker jobs report than the consensus.

EUR markets are focused on the growth impact and less concerned about inflation than the ECB

When the European Central Bank last met on 6 March, it cut rates and [kept an easing bias with an openness to pause](#). The changed wording on the restrictiveness of its policy rates was already a compromise amid diverging views in the Governing Council. Since then, the ECB's policymaking is being made more difficult not only by the tariff announcement but also by Germany's fiscal rethink last month. A surge higher in long-end rates back then had prompted doves to come out in favour of continuing to cut policy rates to offset the more immediate financial tightening effect.

Market rates are now lower again, but overall sentiment has clearly taken a hit on the US tariff announcement. Still, some officials have called for caution amid a more uncertain inflation outlook. The 20% tariff rate on the EU is slated to come into effect on 9 April (the universal 10% tariff is applied on 5 April), so in theory, it gives room for last-minute negotiations and deals, but the ECB should have some clarity ahead of the 17 April decision.

In the market's thinking, an April ECB cut looks very likely still. The implied probability of just below 70% is not as high though as some days ago, before a Bloomberg report pointed to remaining divisions within the Council. But the market's focus is clearly on the weakening growth, and it is eyeing a growing possibility of a third cut this year to bring the depo rate to 1.75%.

Looking at the entire curve, it has been the 5y part that outperformed in the wake of the tariff announcements. 5y swaps were close to 9bp lower on the day, while surrounding 2y and 10y rates declined by a bit more than 7bp. 30y rates came down by 'only' 4bp. We think the steepening bias will remain the structural undertone with the European and German spending pledges in the background. Temporary flattening episodes on the back of risk-off bouts are possible as the ECB is already priced aggressively.

Today's events and market view

The market will remain sensitive to any signs of trade negotiations and deals to stave off the impact of the impending tariffs. In data, all eyes are on the US jobs report where the consensus is looking for a payrolls' increase of 140k, down slightly from last

month's 151k, and an unchanged unemployment rate of 4.1%. There is no clear skew in the individual forecasts, ranging from 80k to 200k. After the release Fed Chair Jerome Powell takes the stage speaking on the economic outlook at a conference, giving him the opportunity to react both to Trump's tariff announcements and the jobs data.

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