

## Rates Spark: No desire to micro manage

Market rate cut expectations have now come quite far. In the US, the Fed is already in its pre-meeting blackout period, so the pricing is awaiting confirmation by the data. The ECB seems to pass on its final opportunities to push back more aggressively – and a desire to micro-manage may be limited when the Council is having difficulties finding a consensus



There doesn't appear to be any great urgency to "correct" market pricing from the ECB as of yet, despite its apparent clash with the official high-for-longer line

### Fed cut expectations awaiting validation by data

US Treasuries saw a decent bear flattening over yesterday's session as front-end rates moved around 10bp higher. Last Friday, the rate cut discount for the Federal Reserve had deepened to a substantial 135bp of easing over the course of 2024. This has now come off a bit.

The Fed is now in its pre-meeting blackout period, so the next cues will have to come from the data. The key piece of information will be Friday's jobs report. The expectations of very early cuts – such as the 50% probability attached to the March meeting – look like a stretch to us, and the jobs data is unlikely to provide that validation if the consensus is right about the 186k figure, up from last month's very soft 150k. But the market does appear more sensitive to downside surprises.

## ECB seems to be passing on opportunities to push back against aggressive rate cut pricing

Unlike the Fed, the European Central Bank (ECB) still has a good part of this week to steer expectations before next week's meeting. But it does not appear that there is a great urge on the side of the ECB to "correct" market pricing despite its apparent clash with the official high-for-longer line. The ECB's Vice President, Luis de Guindos, acknowledged that the recent inflation reports were a positive surprise but also said it was too early to declare victory. Calling for caution, he pointed to still large wage increases in parts of the eurozone. This morning, Isabel Schnabel also confirmed in a [Reuters interview](#) that further rate hikes could be taken off the table given the "remarkable" fall in inflation, but also warned about guiding markets on rates moves too far ahead given the rapid changes in inflation.

The ECB is looking at markets discounting a more than 50% chance for a March rate cut and overall 135bp of easing over the next year. But at the same time, the market rally that got us there was in good part driven by declining inflation expectations – the right kind of driver in the eyes of the ECB, if only a bit too exuberant. It also means that looking at real interest rates as a gauge for the effective policy stance, we are still above the average since July and only marginally below average in medium to longer tenors.

The ECB probably also has little desire to micro manage and add to market volatility as markets already seem to gear down into year-end. In longer rates, for instance, government bond supply is slowing with final auctions seen by Germany, France and Spain this week, which may well support the lower yields. And to the degree that pricing is inspired from US dynamics there is a lot that can change with key data this week.

### Today's events and market view

The market is likely to increasingly rely upon data to make up its mind. The Fed is in its blackout period, and for the ECB Governing Council, one knows that its internal consensus is often shifting (too) slowly anyway.

Key inputs today are the ECB consumer expectations survey on inflation for October. Counter to the general disinflationary trend, it had nudged higher last month, with the 1Y measure rising to 4% while the 3Y remained sticky at 2.5%. The producer price index can provide insights into pipeline price pressures. Also on the cards are the final services PMIs for November, not just in the eurozone but also in the US.

More relevant in the US is the ISM services index, which is seen improving slightly. The JOLTS job opening numbers will also be key and are expected to resume their decline.

In government bond supply, Germany will sell €4.5bn in 2Y bonds, which also marks the country's final supply for this year.

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