

Rates Spark: Bonds rally on risk-off sentiment

Bonds rallied as risk-off sentiment dragged risk-assets lower. Significant euro and dollar issuance did not seem to prevent the decline in yields. Markets are already pricing in significant central bank easing and thus the front end of US and eurozone yield curves had less room to fall



Curves bull flattened as short end remained more anchored

Global yields saw a sharp decline as US investors returned from their long weekend and seemed to disagree with the drift higher the previous day. Risk-off sentiment is making a reappearance with stocks lower and the VIX breaking above 18 again. The ISM numbers were not even that bad but were also not good enough to shrug off market pessimism. This decline in rates coincides with a time of significant issuance across corporates, financials, governments, and SSAs, which would usually provide upward pressure on yields.

The front end of both the UST and Bund curves declined relatively less than further out the curve, reflecting the perception that shorter tenors are already pricing in significant central bank easing. Fed pricing for 2024 now stands at 100bp, which we think is fair. Pricing for European Central

Bank cuts in 2024 remains anchored around 60bp, just 10bp above our own projections.

Markets are still pricing in a probability of an October ECB cut, directly after September's cut, but ECB speakers have expressed their doubts about the timing of such a consecutive cut. The ECB's Simkus just now deemed an October cut unlikely and emphasised the reliance on new macroeconomic projections for decision making. We also do not see the need to chain two 25bp closely after one another and instead think the ECB will continue to cut in December and then more in the first quarter of 2025.

Wednesday's events and market view

Before Friday's US payroll numbers, which will likely set the tone for global rates going forward, markets will be eyeing the JOLTS report on Wednesday. The expectation is for a moderate decline in job openings from the prior reading, but nothing to signal an impending recession. From the eurozone we have Spanish and Italian services PMIs and also PPI numbers. The ECB's Villeroy will be speaking on a financial services panel. Later in the day the Fed will release the Beige Book.

In terms of supply, Germany will auction 14Y and 17Y Bunds for a total of €1.5bn.

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