

Article | 1 July 2025

RATES SPARK

Rates Spark: Markets gain confidence about another ECB cut

Benign eurozone inflation today would give markets more confidence that the ECB can cut rates again. Market positioning suggests the policy rate may start rising again later in 2026, an idea that could be further cemented on the back of a trade deal. Meanwhile, this week's central bank forum in Sintra could provide further insight into the ECB's thinking



The ECB is holding its annual Forum in Sintra, Portugal from 30 June to 2 July

EUR rates peek beyond the trade deadline

With the eurozone flash CPI set to show a 2% headline rate, in line with the European Central Bank's target, and oil prices having calmed over the past few days, ECB officials can feel a little more at ease. Exchange rate dynamics as a Fed discount builds can even provide the room and reason to deliver another rate cut further down the line amid a still sluggish near-term growth outlook. We hope to hear more about the ECB's current thinking at the sidelines of this week's central bank forum in Sintra, Portugal.

Over the past week, the markets' ECB rate cut discount for the near term has come down slightly, though still clearly centred around a 1.75% terminal rate. However, the market is already anticipating higher rates beyond the middle of next year. There is still a trade deal that

needs to be finalised for markets to find more conviction in that view, but headlines of late seem to suggest more progress despite the noise that the US President still injects. Should the outlines become clearer, that would allow longer EUR rates to set their sights on the impact of the EU and German spending plans. The 10y EUR swap rate would then start drifting beyond 2.6% where we still eye a long run fair value level of close to 3%.

Tuesday's events and market view

EUR rates will receive the flash CPI data for June. With many country readings available and Germany's data on Monday surprising on the downside, the market should already be accounting for a benign reading with headline CPI at 2%.

The main data focus will be on the US after markets started to eye greater chances of earlier Fed cuts. Of particular interest today will be the JOLTS data on job openings and layoffs ahead of the official jobs data later this week. Other data to watch is the ISM manufacturing, which is expected to improve slightly, though staying below the 50 break-even threshold.

Central bank heads will have a chance to comment on recent developments with Powell, Lagarde and Bailey among others joining a panel at the ECB's Sintra Forum.

In primary markets, we only have the UK selling 28y gilts (£2bn).

Author

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

THINK economic and financial analysis

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.