

Rates Spark: Markets looking for affirmation of dovish sentiment

A first rate cut by the Riksbank has not been enough to further push the bullish sentiment. Eyes are on the Bank of England. While no cut is seen, the market could be looking for a more dovish lean following the Fed's example. After a less than solid 10Y UST sale, the new 30Y bond could be the real test to markets' bullish appetite



US Treasuries tread water, but mostly in a sign of resilience

Even though the US 10yr is off highs hit prior to the FOMC meeting, there is a certain resilience being shown at the hold in the 4.5% area.

Whatever the tone of last week's FOMC meeting, the most important information for Treasuries will come from next week's CPI report, and we are still looking at 0.3% and 0.4% month-on-month combos, which remains too hot. If we get this, likely it won't be till the May readings that we see the beginnings of some taming in MoM inflation rates. That keeps the pressure elevated in the coming month. We think the hold in the 4.5% for the US 10yr is reflective of this.

We also saw some evidence of this in the less-than-stellar 10yr auction. It tailed, but only slightly, and so it was by no means awful. We need to get through the 30yr next, and that had shown a

greater tendency to tail in the recent past. It won't answer any questions, but it will give us a bit of a guide. But even then, it's a roll on to the CPI report ahead that's key.

Many central bank events to look for hints of dovishness

On Wednesday the [Riksbank in Sweden was the next central bank to cut rates](#), which was not fully priced in by markets. The Riksbank is sensitive to the value of the krona and thus a rate cut can bring some currency weakness, a challenge the country has experienced before. One could draw a parallel with the ECB cutting before the Fed, but in the case of Sweden the economic backdrop differs significantly from the eurozone. The economy has contracted for four quarters in a row and the job market is deteriorating, whereas in the eurozone the economy seems to gravitate more towards a gradual recovery. As such this also explains why euro rates were little impressed by the dovish move.

Next we have the [Bank of England meeting](#). No cut is expected on Thursday but with a June cut still on the table with close to a 50-50 probability priced in, the forward guidance will be scrutinised. Since Powell's dovish stance just last week, markets will listen carefully for a similar direction as the Fed. Together with the weak US payroll figures, the overall sentiment turned significantly more dovish. This also means that markets may face a surprise if a similar turn towards more dovishness is not reflected in this BoE meeting. Having said that, our fair value model suggests that 10yr Gilt yields are already elevated, which should limit the potential for edging much higher.

No other central bank meetings thereafter, but we will get the ECB meeting minutes from April. Remember that this was the meeting that highlighted a certain degree of disagreement, with some Governing Council members already vouching for an April cut. This was opposed by more hawkish members and especially their narrative will be of interest. With views for cuts after June less anchored, the conditions for the second cut are something we will be looking for. This Wednesday the ECB's Wunsch – a known hawk – suggested room for 50bp in cuts this year but also highlighted the risks from wage growth. Markets are still leaning towards three cuts this year but we think that the probability of two cuts should bear a heavier weight in market pricing at this stage.

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Thursday's events and market view

With many countries on holiday, Thursday will be light in terms of events and trading. The aforementioned Bank of England meeting is the highlight. From the US the Initial Jobless Claims could draw attention, especially if we see a deviation from the data's pattern of remarkable stability over recent months.

In the eurozone, primary markets on Thursday will see auctions from Spain and Ireland. In the US after the 3yr and 10yr note auctions, we will see how markets digest the auction of the new 30yr bond.

Author

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

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