Rates Spark: Markets seek signals among the noise

President Trump's confirmation of tariffs on Canada, Mexico and China did not trigger a significant impact on markets. Similar to the threat of eurozone tariffs earlier, rates are first waiting for concrete outcomes before choosing direction. Next week's European Central Bank meeting may not reveal much about its easing plans thereafter

Despite tariffs being in the headlines, markets are taking a wait-and-see approach

Markets back to wait-and-see mode in tariff saga

Tariff headlines are taking centre stage again, but markets are struggling to find signals amid the noise. Instead, the wait-and-see approach is back, which also means that rates moved relatively little on Trump's confirmation of tariffs on Canada, Mexico and China. Just a day earlier, the threat of 25% tariffs on the European Union also saw just a modest market reaction. Part of this will be because markets are already pricing in the arrival of tariffs, but given that eurozone equities are still hugging all-time highs, markets' assessment cannot be too pessimistic about any impact.

ECB will likely struggle to give markets guidance about next cuts

The ECB will meet next week and markets (and ourselves) are quite certain that another 25bp cut is incoming. For the April meeting we see more uncertainty in market pricing, with around a 66% chance of another 25bp cut. The ECB has often assured markets that it will fully prepare them for the outcome of a meeting by giving enough hints in the weeks leading up to the decision. But Trump, together with growth and inflation numbers that have offered little direction, suggest that ECB President Christine Lagarde may not offer much to refine our expectations on the next rate decisions. Next Thursday, the clue markets will be looking for is whether the ECB will still refer to current policy rates as being "restrictive", hinting at room for further easing.

We still think the ECB has room to cut to 2% this summer. Growth is unlikely to show strong improvements, and with the many risks lurking on the horizon, the ECB will want to be ahead of those materialising. As inflation numbers still show some stickiness, we do see a chance that the front end of the curve (up to 2Y) could flatten from here. The ECB has turned more vocal about inflation, which means that cuts in the very near term might face resistance. Instead, the idea of further cuts later in the year or even in 2026 may get more traction in market pricing.

Today's events and market views

French, Italian and German inflation numbers should be watched and have moved markets by considerable amounts in the past. From the US, we have the PCE readings for January, of which the core component is expected to come in at 0.3% month-on-month. Not a great number on an annualised basis. Having said that, forecasts by economists see more downside than upside risks. Also from the US we have wholesale inventories and the MNI Chicago PMI.

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