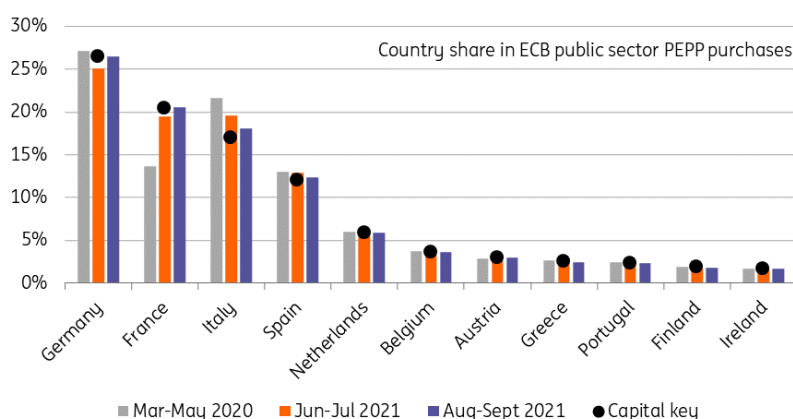


## Rates Spark: More divergence on the cards

USD markets are pricing in a number of growth-boosting developments. EUR rates are more circumspect, both on technical and fundamental factors. This augurs for more widening in the spread between USD and EUR market rates. This makes directional sense. There may be volatility along the way as we face into US elections, but divergence still dominates.



Source: ECB, ING

### More USD-EUR long-end rates divergence

Looking under the hood of recent price action might yield a more balanced view of the events that have triggered the mini Biden reflation trade experienced in USD rates so far this week. For instance, there can be reasonable doubts about Congress' ability to strike a fiscal stimulus deal, or whether investors can trade a Democratic 'sweep' in less than a month's time with a sufficiently high degree of confidence.

Markets though, are forward-looking in nature. Even on thin volumes due to most investors being side-lined, market moves typically occur prior to the event they are 'reacting' to. The US election is no exception and barring an unexpected turn in the polls, or a collapse in fiscal deal hopes, we see a stronger case for the current trend to extend in the coming sessions.

What is for sure is that US macro data has consistently surprised to the upside in the past month.

Market rates refused to pay too much attention as risk assets were wobbling, and the macro outlook was becoming even more uncertain. In fact, we feel that market got caught a tad short on duration and had in fact pared back credit risk. Some short covering in rates contributed to the outsized move. It is in the direction that we favoured and called for, but we also see technical factors that likely overstated the short-term moves.

**105bp** our target spread between 10Y USD and EUR swap rates

The stronger performance of EUR rates, and widening relative to their USD counterparts also seems to confirm our view that both technical and fundamental factors point at a divergence relative to other currencies. Yesterday's divergence between Spanish and Italian services PMIs seemed to confirm what awaits countries where more stringent measures are put in place to palliate the rise in covid cases.

## ECB revealed a strong focus on public sector QE over August/September

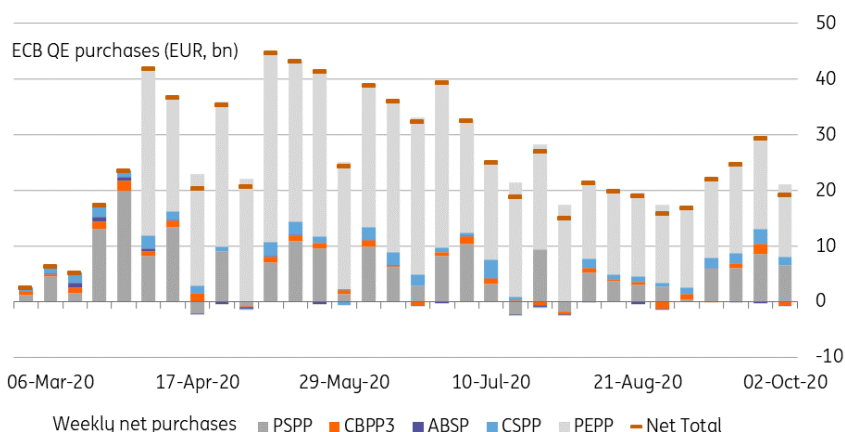
The ECB released the third set of detail data regarding its purchases under the pandemic emergency programme (PEPP), this time for the months of August and September. We already knew from the monthly headline data that purchases slowed over the summer, pushing the purchases to below €60bn in August before picking up again modestly to €67bn in September.

What is now revealed is that over the past months the ECB was almost entirely focused on public sector securities, i.e. in total a net of €126.8bn were bought. In corporate bonds a net of only €2.7bn was acquired, covered bond holdings were kept flat while commercial paper was allowed to run off by €2.7bn.

While volumes were lower, the ECB did use the opportunity of calmer market conditions to even out some of the deviations vis-à-vis its capital key guidance. Purchases in Italy were scaled back to make up 18%, still somewhat above the capital key-implied 17%. Purchase shares in Germany and France were increased to even a tad above their respective capital keys. In Germany the ECB also increased the weighted average maturity (WAM) of its portfolio holdings from 4 years to 4.5 years, which implies purchases somewhat further out the curve and/or a roll-off of t-bill holdings. The figure is still below the 6.6 year WAM of the German public sector securities universe the ECB could tap into, though. The potential for German purchases to catch up to the eligible universe's WAM should prove, alongside lower supply in Q4, another tailwind to direction.

Notably, the share of purchases in the European Supra space declined to 4.6% from previously above 7%. In absolute terms that is just €5.8bn over the past two months, versus around €14bn in each of the previous observation periods. That said, it still topped the combined €-gross issuance of EIB, ESM, EFSF and EU over August and September of €4.3bn. Going forward, though the EU starting to fund its SURE programme should provide the ECB with a larger market to tap into in coming months.

## ECB net QE purchase slow again over the past week



Source: ECB, ING

## Today's Events: more central bank speakers

Powell and Lagarde are both due to speak publicly today, ahead of policy meeting releases later this week.

Bond sales today consist of 4Y/10Y Austria and 10Y/16Y German linkers. The US Treasury sells 3Y debt today but 10Y and 30Y sales later in the week should put more (upward) pressure on USD rates.

### Authors

#### Padhraic Garvey, CFA

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

#### Benjamin Schroeder

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto: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.

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 <http://www.ing.com>.