

## Rates Spark: Near-term balance of risks still tilted towards higher rates

Markets are geared for dovish outcomes this week, not just in rates where still notable probabilities are discounted for first cuts as early as March, but also across wider risk markets. This sets up markets for disappointments if they don't get exactly what they want. Data is a wild card, but the ECB will have this in mind if it is earnest about pushback



### Near-term balance of risks still tilted towards higher rates

The thought of a soft landing actually materialising against all odds are supporting risk assets in all corners of the market. The S&P 500 closed at new record levels on Friday and also on Monday the equities rally pushed on through. In rates the pricing in of a soft landing has pushed down rates along the curve at the start of the week, supported by the idea that inflation is coming down as markets are eyeing this week's PCE data. But markets are starting to fine-tune their expectations more in line with our thinking, even if we see more scope for correction in this direction: pricing for a March Fed cut is now down to 10bp, even though overall pricing for cuts this year has even deepened somewhat again to 134bp.

Even though we also see inflation coming down steadily, we warrant caution about markets still getting ahead of themselves – especially in EUR rates. The European Central Bank will meet on Thursday and we expect a reiteration of their data-dependent path towards policy normalisation. Last week yields came down the day that Lagarde hinted at rate cuts in the summer. The best that markets can hope for is a reiteration of that comment, but given the guarded fashion of Lagarde's statements we can see a scenario where she does not repeat this dovish message in the context of the policy meeting this week. We therefore see a chance that EUR 2Y rates will recalibrate higher again in response to the press conference when markets don't get exactly what they are looking for.

In the US there is also no guarantee that the nudge lower in rates we saw at the start of this week will extend. Markets have their eyes on a 2.0% core PCE inflation, in line with the Fed's mandate that will be published on Thursday, which, if met, would keep the market pricing of a March rate cut as a realistic scenario. If, on the other hand, the actual number were to exceed 2.0%, even by a bit, we could imagine the market reacting more sensitively to such a disappointment. Similarly, we would expect an asymmetric reaction to the GDP growth figures, which our economist expects to come in firm on Thursday. On balance, if data come in as expected the further downside is moderate, but at least near term the potential could still be larger.

## Tuesday's events and market views

Japan will kick-off this week's central bank meetings but no change of the policy rate is expected. In terms of economic data releases Tuesday will be another light day. The EU Commission will publish the consumer confidence index and the ECB will release results of its bank lending survey. In the US we have a few business indicators from regional Feds.

It is the rest of the week will be of more interest, with eurozone PMIs on Wednesday, the ECB meeting and US GDP data on Thursday followed by the PCE on Friday.

In primary markets Germany will sell 4Y and 30Y green bonds while the Netherlands taps a 15Y bond. The US Treasury sells new 2Y notes. In SSAs the EU has mandated syndicated taps of existing 7Y and 30Y bonds, which should also be Tuesday's business.

## Authors

### **Benjamin Schroeder**

Senior Rates Strategist

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

### **Michiel Tukker**

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

### **Padhraic Garvey, CFA**

Regional Head of Research, Americas

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