

Rates Spark: Near-term uncertainty versus long-term prospects

EUR curves continue to maintain a steepening bias as improved long-run prospects are weighed against near-term uncertainty and prospects of the next ECB cut. Supply fears meanwhile remain more contained after the initial shock, and are also more carefully managed as seen in the UK's Spring Statement



EUR curves maintain steepening bias as next ECB cuts are eyed...

US tariffs remain the wildcard in the coming week. Alongside recent spending decisions it also creates an uncertainty that the European Central Bank is struggling to navigate with in its recent remarks. Wednesday saw Villeroy telling French lawmakers that victory against inflation was almost assured and that there was still room to cut rates “pragmatically”. Austria's Holzmann however, saw the defence spending plans and tariffs as an inflationary threat and indicated he would not vote to cut rates at the upcoming meeting.

Of course, coming from him as a well-known hawk it left markets unfazed and they have continued to increasingly lean towards seeing the ECB cut rates again in April. With close to 18bp

discounted for next month, this implies a perceived probability of around 70% for a 25bp cut.

This dynamic is helping to maintain a steepening bias for the broader curve, where 2s10s is back close to the peak levels from earlier this month and further out even moving beyond – the 10s30s swap curve is coming closer to disinverting at above -5bp, reaching its steepest levels since early 2022.

... while supply fears are contained

As opposed to the curves where the contrast between improved long-run prospects and near-term uncertainty can still play out, the spreads of bonds over swaps appear more reflective of a sober look at the funding pressures ahead. Here the 10y Bunds spread continues to stabilise, which was likely helped by the German constitutional court ruling that the solidarity surcharge, an additional tax introduced in 1991 to finance the unification, was still lawful. This means that the incoming government – or for now those negotiating the upcoming coalition – can still count with €13bn of revenue from this tax.

Meanwhile, the [Spring Statement](#) in the UK largely followed the lines of what had been anticipated, but still resulted in a decent bull flattening of the gilt curve. The gilt remit for 2025/26 came out at 299bn, a tad below median expectations. However, the share of funding via long maturity gilts (over 15 years maturity) is reduced to 13.4%, well below expectations that were looking for only a slight decline versus the 18.5% announced in last year's statement.

Thursday's events and market view

The eurozone data calendar has little to offer besides the ECB's M3 data. But there will be a busy slate of ECB speakers again including Schnabel, de Guindos, Wunsch and Villeroy.

The US will release the usual weekly jobless claims data where no big changes are anticipated. The advance goods trade balance will probably get the most attention, though, as this was the release pushing the Atlanta Fed's nowcast into contractionary territory. The US will also release third GDP readings for fourth quarter 2024 GDP. From the Fed, Barkin and Collins are scheduled to speak.

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