

Rates Spark: Next week should be more eventful for euro rates

Next week we have the European Central Bank meeting, although no rate cut is anticipated. Markets are still split about when the next cut will take place, so the ECB will likely give more guidance in due time. More important for euro rates may be the PMI numbers. A continuation of upside economic data surprises opens the door to higher longer-dated rates



Data surprises more likely a driver next week than ECB surprises

For euro rates, this week turned out to be quite uneventful, but next week should bring more for markets to work with. For one, we have the ECB meeting on 24 July. Although [we don't see a cut](#), we will be listening for hints about the path forward. So far, the ECB has carefully staged each cut, with no surprises on the day of the actual meetings. Markets do see another 25bp cut, but have not yet decided on the September or December meeting. This means the ECB will have some work to do if it wants to orchestrate its next move. Having said that, this will hinge on Trump's eventual tariff levels and their impact, something we – and the ECB – can only speculate about for the time

being.

Whereas the front end of the curve will likely see little movement, the drift higher in longer-dated yields could continue if we see a good set of PMIs on Thursday. The Citi economic surprise index for the eurozone is now at its highest since April 2024, reflecting better-than-expected readings over the past three months. Of course, the consensus has also been more downbeat since 'Liberation Day', lowering the bar for upside data surprises. But still, a series of good economic numbers could accelerate the rise in the 10Y swap rate. Economic headwinds, including the aforementioned tariff threats, are keeping rates lower, but structural forces like quantitative tightening and EU spending ambitions open the path to higher levels.

Meanwhile, Japanese government bonds (JGBs) [continue to be under pressure](#) against a backdrop of fiscal concerns and inflation risks, with higher long-end rates increasingly spilling over to global rate markets. With the Bank of Japan in hiking mode and the ECB still cutting, European government bonds are looking increasingly attractive on an FX-hedged basis for Japanese institutional investors. The upward yield pressure can therefore continue if domestic investors seek foreign alternatives for their JGB holdings.

On Wednesday, we'll stress test our calls for the ECB and euro rates during a 30-minute webinar ([Sign up here](#)).

Friday's events and market views

Little data is expected. The US will publish building permits and housing starts, which gauge the direction of the housing market. We also have the Michigan consumer sentiment index for July, which consensus sees as broadly stable.

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