

Rates Spark: Not the end to France's problems

The primary victim of French political turmoil is fiscal consolidation efforts, but for now any market concerns are largely contained to French bonds. We think spreads could still widen with new legislative elections not completely off the table. In the US, payroll data revisions could further spur Fed cut speculation



With the fall of the Bayrou government, fiscal consolidation in France is key

French fiscal consolidation falls victim to politics

Whilst the [negative outcome from the confidence vote](#) was expected, it does highlight the uncertain path towards France's fiscal consolidation. The most probable way forward is the appointment of a new prime minister, but preparing a budget that will pass parliament seems difficult. The spending cuts will likely need to be watered down to garner broader political support.

French government bond (OAT) yields are unlikely to tighten materially from here, we think, while the upside potential is still significant. The 10Y OAT-Bund spread is still some 10bp tighter than the peak last November when Barnier's government fell. Compared to then, we now have the possibility of new parliamentary elections, which only complicates the puzzle further and keeps uncertainty high.

Spillovers to the broader eurozone market are limited so far, but a prolonged escalation could see lower swap rates. While the hurdle for pricing in more European Central Bank easing is high, for longer rates we do see risk sentiment as a potential bullish factor. The combination of worsening US economic data and headlines from France may limit the upside potential for 10Y swap rates for now. Having said that, as long as Macron is president, likely until the 2027 elections, we don't expect a blow-out of OAT spreads and a broader shock to risk sentiment.

Tuesday's events and market view

US Treasuries are trading with a bullish undertone since the weak set of labour data over the past week. That puts the focus squarely on the preliminary [benchmark revisions to payrolls](#) for the 12 months to March 2025. As our economist notes, other quarterly census reports already point to a downward revision of data between March and December 2024 of 857k. This would be a big change in the job market narrative and could fuel questions of why the Fed shouldn't cut by 50bp this month. Ahead of the revision, we will also get the NFIB small business optimism index, which is expected to change very little, if not slightly improve.

Primary markets will be busier with the EU selling new 5y and new 30y bonds via syndication. The Netherlands taps an 11y bond for up to €2bn, Austria a 9y for €1.2bn and Germany two green Bunds for €1.5bn. The UK auctions 18y gilts for £4bn while the US Treasury will sell US\$58bn in new 3y notes.

Author

Michiel Tukker

Senior UK & Eurozone Rates Strategist

michiel.tukker@ing.com

Benjamin Schroeder

Senior Rates Strategist

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 www.ing.com.