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Rates Spark: Pension reform unaffected by Dutch political turmoil

Markets remain in their ranges, caught between trade tensions and the prospect of key data releases this week. The ECB is seen as more reactive to these unfolding events. The latest CPI data helps seal the case for an upcoming rate cut, but does not change the uncertain outlook. Meanwhile, Dutch political turmoil should leave the pension reform unaffected

Far-right leader Geert Wilders has pulled his party from the ruling coalition, throwing Dutch politics into turmoil

In waiting mode ahead of this week's key events

There were no outsized moves in long-end rates as markets approach the bigger events of the week ahead. The 10y Bund yield has inched above 2.5% again while the 10y Treasury yield bounced off 4.4% on the back of a more hawkish comment from Atlanta Fed President Raphael Bostic.

In other times, a eurozone headline inflation reading dropping below the ECB's target would likely have elicited a bigger reaction. But going into the meeting, the market is already fully priced for a rate cut on Thursday. And for the months ahead, the market is already eyeing an ECB potentially cutting beyond even 1.75% early next year as tariff uncertainty weighs on the outlook.

It is mostly this sentiment around US-EU trade relations that is driving pricing, with tensions having risen again of late. Trump's doubling of steel tariffs is a good example. The 9 July deadline to negotiate a deal is approaching fast, with limited progress visible so far.

Dutch Pension reform should be unaffected by government collapse

The fall of the coalition shouldn't disrupt the ongoing Dutch pension reforms. If anything, a caretaker government won't be able to make any drastic changes to the legal framework. The current polls suggest that the parties against the pension reforms won't find a majority in the next parliament, which reduces the chance of further proposals to change the transition rules. Even if pensions become a hot topic in public debate again, changing anything before the transition date of 1 January 2026 will be difficult, if not impossible. New elections would likely take place in October or November.

Having said that, we do still see a tail risk that pensions become a hot campaign topic if market moves push funding ratios below 100%. A 100bp decline in the 20y swap rate and a sharp equity sell-off could be a catalyst. In this case, pension funds would have to cut promised payments when transitioning. Such cuts would be politically sensitive and could trigger more parties to attempt to interfere with the reforms.

Wednesday's events and market view

From the eurozone, we will get the final services PMIs. US releases will be the main focus with the ADP payrolls report and the ISM services ahead of Friday's jobs report. For the assessment of the Fed's stance, the spotlight will be on the Beige Book, which contains anecdotal evidence of the economic situation from regional Fed contacts. The Fed's Bostic is the only scheduled speaker.

In terms of primary market supply, Italy mandated banks for a new 5y benchmark and a €5bn reopening of the 18y green bond. The UK auctions £4.75bn in 3y gilts.

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