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Rates Spark: Plenty of supply as we approach summer

Mixed messages about a potential deal between the US and Iran have not seemed to harm overall market sentiment. More confidence about the ECB s policy path helps tighten European government bond spreads. As we approach summer, we see an increase in issuers entering the market, including many sovereigns, supranational and agencies

We are seeing increased activity in primary markets, as EU issuers are using this opportunity ahead of the summer break

Market sentiment still strong despite mixed signals on potential deal

Taking oil markets as an indicator, investors are still showing some optimism with Brent testing towards US$94/bbl earlier on Wednesday. Market sentiment stayed largely unfazed by headlines indicating that reaching a final agreement remains difficult, with Brent staying below US$100/bbl. While equity markets turned softer overnight, sentiment remains well-supported by the tech narrative. It is not just indices still closer to their highs, but also the common equity risk gauges like the VIX having come down to levels last seen before the crisis.

Rates markets are still displaying elevated central bank pricing. The European Central Bank is widely expected to hike rates next month, a view clearly underpinned by recent ECB comments, and overall, more than two hikes in total are still baked into the money market curve. More importantly, the market seems to have come to terms with the prospect of some

ECB tightening being necessary. Rate volatility measures have come down more than elevated rate expectations would suggest. In eurozone government bond markets, that bit of reduced uncertainty has been enough to pull the widely observed spreads versus German Bunds tighter alongside.

Plenty of issuers coming to the market ahead of summer

More recently, we are also seeing increased activity in primary markets again, as issuers make use of this window of opportunity as the summer break draws closer. Last week was busy, and this week, we have already seen Spain launch a new 10y bond, and in the broader €-denominated SSA sector, the EU's ESM, French UNEDIC, Italy's CDEP and Dutch BNG have brought new bonds to the market.

Looking ahead, Austria and Portugal have announced deals for an unusual dual tranche: Austria targeting two new issues (5y and 15y), and Portugal targeting a new 20y bond. On the SSA side, Dutch issuer NEDWBK has mandated a 7y deal, and the autonomous Community of Madrid is also in the market for a 5y European Green Bond.

Thursday's events and market view

From the eurozone, we will first get a new reading of confidence indicators. Consensus sees the overall economic confidence indicator staying at 93, but a slight deterioration in the industrial and services components. From the US, we have personal income and spending data from April, alongside the PCE readings. The increase in core PCE is expected to remain high at 3.3% year-on-year. We will also get a second reading of first-quarter 2026 GDP, which came in at 2.0% on an annualised basis in the first estimate. If we indeed get confirmation of hot inflation and robust growth, then UST yields should stay supported at these elevated levels.

We have a long list of central bank speakers. From the ECB, we have President Christine Lagarde and Isbael Schnabel, and from the Bank of England, Deputy Governor Sarah Breeden will speak. Fed speakers include John Williams, Alberto Musalem and Tom Barkin. The ECB will also publish the minutes from the April decision, which could shed more light on the possibility of a June hike and any potential future policy moves.

In terms of supply, Austria will conduct a syndication of new 5y and 15y bonds with estimated sizes of around €4bn and €2bn, while Portugal will launch a new 20y bond with an estimated size of €3bn. The UK will hold auctions of £1bn in 4y Gilts and £1bn in 13y Gilts. Italy will auction a mix of BTPs and CCTeus across the 5y to 10y sector for a total amount of €10.5bn. The US will auction a new 7y note with a total size of $44bn.

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