

## Rates Spark: Policy reappraisal

Aggressive curve moves suggest a reappraisal of central bank policies. The more aggressive response to stickier inflation is also dampening the long term outlook. The reflattening was most visible in the UK, but also in the EU and US, where a September 2022 Fed hike was fully priced for the first time. There is a CPI-linked tightening theme in play.



### FOMC minutes remains upbeat, and tapering is coming

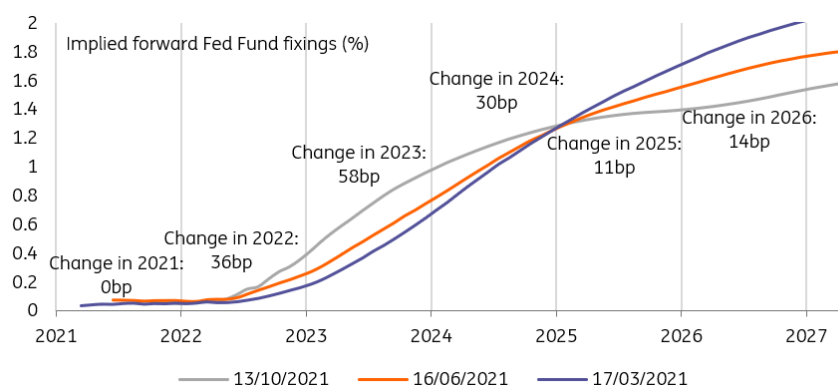
The Fed's minutes provided some relief for the back end, as a proposed tightening in policy through a likely bond-purchase-taper announcement from the November meeting, does provide an inflation-containment support. It also means less bond buying of course. And the overall tone from the minutes remained quite upbeat on the macro economy.

US CPI inflation was supposed to have peaked. It probably still has, at around these levels. But still, an edge back up (to 5.4% headline), rather than a flatline and down has occurred. It's not a big deal, but at the same time it plays into the sticky inflation narrative, and the notion that yields can react higher. A 10bp miss is small, but it's the only dataset that can in fact translate directly into the level of rates, as part of the level of rates is of course inflation.

We note also the move in the 2yr to 35bp, and briefly up to 39bp intra-day. That is heading to

50bp in our opinion. The risk for earlier rate hikes is far from discounted, even at current levels. The belly of the curve is also continuing to cheapen, pivoting around the 5-7yr area. In recent days a part of this belly cheapening has been from long rates easing lower. But the latest CPI number reminds the bond market that lower long rates are still a bit premature. Closer to an actual hike, sure. But not now, not yet.

## First Fed hike in September 2022, but a shallower path later



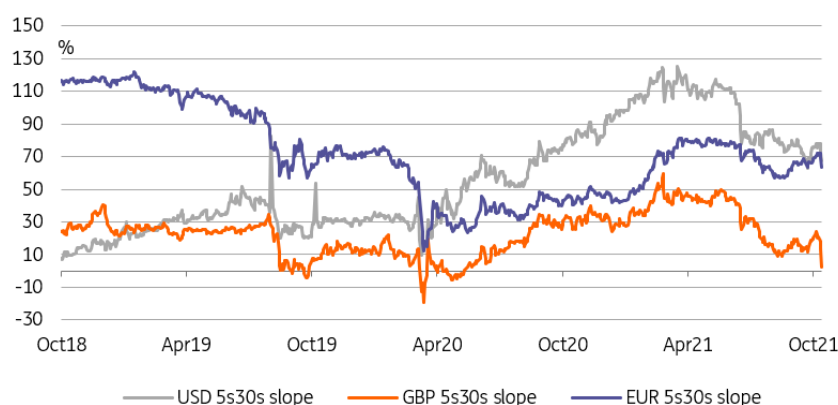
Source: Refinitiv, ING

## The EUR curve catches up with a global rethink

The EUR rates curve also saw an extraordinary flattening move, perhaps also a catch-up following the EU deal-related weakness yesterday. The 5Y-30Y spread narrowed 5bp yesterday, thus taking the past two days flattening to a significant 9bp.

What we did not see in EUR at least yesterday – and unlike as in the US and UK – was a further sell-off in short end rates that could have aggravated the curve shift. The OIS forwards reveal that the market is already pricing in 10bp higher overnight rates by the end of next year and another increase of 19bp in 2023. By all means, that already looks quite aggressive with regards to 2022, unless one attributes that rise to other more technical factors such as the long term liquidity operations being paid back early or the tiering multiplier being increased (i.e. raising the amount of excess liquidity banks can park for free). Looking at 2023 it is in line with where economists' expectations (including ours) have been shifting, a first rate hike by the turn of the year 2023/24. But it looks aggressive in the sense that front end pricing now seems entirely geared toward that one scenario.

## DM rates curves flattened aggressively this month



Source: Refinitiv, ING

### Today's events and market view

The Eurozone will see a more hawkish slate of ECB officials speaking today with Elderson and Knot. Given the current sentiment and curve reflexes that could still see more curve flattening if we were to get a softer belly of the curve.

If yesterday was a bit of EUR curve catch-up after Monday's sizeable EU deal, then US dynamics could play a greater role again now. In data we will get the initial jobless claims, but it is the release of the PPI that should keep inflation and the discussion about its persistence amid supply bottlenecks in the headlines.

There is again a busy schedule of Fed speakers to digest today. The NY Fed's Logan speaking on monetary policy implementation may provide more technical insights into the impact of high excess reserves affecting the short end of the yield curve.

In supply Ireland is in the market today reopening 10Y, 25Y and 30Y bonds.

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