

Rates Spark: Pressures rebuild for long dates

Risk sentiment is improving, easing the pressure that had pushed 10Y euro rates lower. With the front end anchored, we see a bear steepening next. In the US, latest TIC data show some foreign net selling. And the 20yr auction was poor



Bund yields seem to be too low and we could see 10yr euro rates moving back up

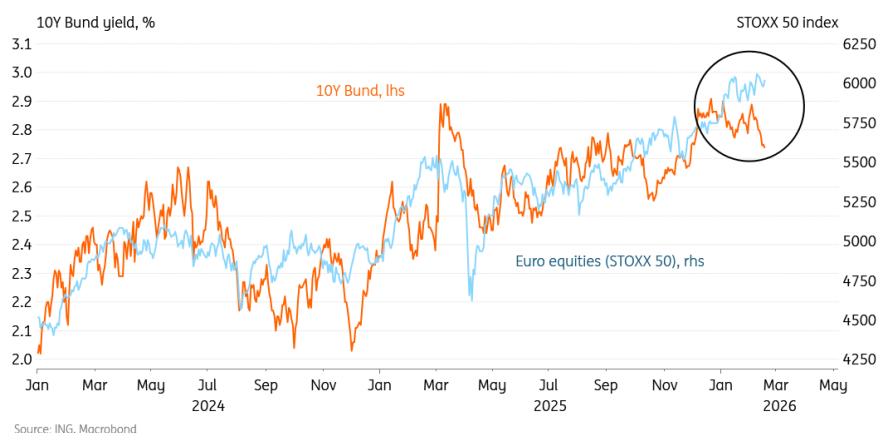
Time to move back up for 10Y euro rates

The equity jitters from the US are starting to ease, which brings significant upside potential for 10Y euro rates in the near term. A worsening of risk sentiment on the back of AI concerns helped push the 10Y swap rate some 20bp below the peak in January. But Wednesday saw better stock performance and the VIX, as a measure of risk sentiment, eased significantly lower. UST yields made a move higher, helped partly by better macro data, but somehow Bund yields are still stuck too low in our view.

We're looking at a bear steepening from here, as the front end of the EUR curve remains firmly anchored. Markets price in a probability of around 30% for another ECB cut this year, which seems fair given the eurozone's growth recovery is still fragile. To move this we would likely need a sharp fall in inflation, a much stronger euro, or a series of deteriorating growth figures. We don't see any of these factors materialising in the very near term. Meanwhile, the 10Y rate has room to rise,

especially if US Treasury yields back up again.

With equity jitters easing, the level of Bund yields seem too low



Foreigners sold US Treasuries in December

Latest US Treasury International Capital (TIC) system data show that foreigners sold a net US\$88bn in December. There was a wide spread of net sellers, with the UK, Japan and Norway the largest.

Through 2025 as a whole, there was net buying of US\$652bn, with the largest buying from the UK, Japan, Belgium (custodial) and Canada. Overall, foreign buying of Treasuries remains positive in net terms. At the same time, it's been clear that the biggest of the buying is among domestics, as they were net buyers to the tune of US\$1.6tr through 2025.

Foreigners own about a third of the Treasury debt currently, but domestics are dominating the net buying, with the Federal Reserve a net seller. That said, the Fed in fact bought a net US\$97bn in December, as it resumed its bill-buying programme, and also bought some short-dated bonds.

Overall, these data are not a dominating influence in setting where Treasury rates sit, as any downsizing in net foreign buying is being broadly offset by domestic buying, and it does not appear that there is a material price concession attached as a result of these dynamics.

Meanwhile, the latest 20yr auction tailed on Wednesday. It was not pretty as the tail was 2bp – effectively a concession versus the secondary market. The indirect bid (typically includes central banks) was weaker than usual. While the auction was not great, it was also the 20yr, which has a bit of a reputation as not being the market's favourite line.

Thursday's events and market view

In terms of data, the eurozone will release preliminary consumer confidence data for February. ECB officials scheduled to speak on Thursday are Cipollone and de Guindos.

The US releases the December trade balance, pending home sales as well as import/export prices, though the main focus will likely remain the state of the jobs market, with the initial claims offering a more timely insight. The Fed's Bostic, Bowman and Kashkari will be speaking.

France and Spain will be active in primary markets. France will auction a new 3Y bond alongside the reopening of two intermediate maturity lines and three inflation-linked bonds. Overall, France aims to raise €15bn in the auctions. Spain sells up to €5.5bn across 3Y, 5Y and 10Y bond lines.

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