

## Rates Spark: Rates markets unmoved by Lagarde

The ECB opened the possibility of a rate cut, but provided little forward guidance for thereafter. Rates ended close to open, but the non-committal stance is a clear reflection of spill-over from US rate moves. There is a push and pull from both ends here in the eurozone, as the ECB pulls the front end down while back end moves are muted by Treasuries



ECB President Christine Lagarde

### ECB has door open for June cut, but thereafter still uncertain

For the first time this cycle the ECB has referenced the possibility of a rate cut in their press statement, paving the way for a rate cut in June. While Lagarde revealed that some council members had been in favour of a cut already at this meeting, the guidance about a June cut took the mildest possible form, hinting at some disagreement within the Governing Council. More important, the statement was reluctant to provide any guidance on the path beyond June.

Still strong domestic price pressures seem to have become the ECB's biggest inflation concern. While Lagarde sought to underscore a decoupling of eurozone inflation dynamics from those in the US, she continued elaborating that anything that matters would find its way through the upcoming projections in June. Our economists pointed out that the US inflation did have a good six-month lead on the broader direction of eurozone inflation developments.

The market is still pricing around 20bp of easing for the June meeting and around 75bp for the year as a whole. The little change in pricing on the back of the meeting suggests that markets didn't glean anything particularly new from the ECB's decisions and communication, but we would think that if anything a non-committal stance has raised the risk of greater spill-over from the US.

That said, this won't change the notion that we could see a policy divergence between the ECB and Fed in coming months, putting further widening pressure on the 10Y UST-Bund spread, which widened to 210bp after the meeting. But the spread widening could be a tad milder than had the ECB signalled more confidence about domestic inflation dynamics and potential easing beyond June.

## US market rates remain under upward pressure

The good news out of the US on Thursday was the tame PPI reading. Readings of 0.3%'s and 0.4%'s month-on-month are not acceptable from the Fed's perspective. We need to see falls to 0.2%'s MoM. The PPI report showed that for March. But we need to see that in the CPI and PCE inflation reports ahead.

The bad news is the 30yr auction tailed by 1bp (effectively a concession versus the secondary market, albeit in a moving market). It was not as bad as the 3bp tail seen on the 10yr auction. But it still shows that market yields have an underlying bias to test higher.

Even the rate cut talk out of the eurozone was not enough to really shake the bearish tilt to Treasuries. The only thing holding Treasuries together here is the speed of the up move in yields in recent days. Typically there is a period of pull back before a procession higher in yields occurs, and we are overdue that. Room for that between now and the PCE deflator report on 26 April.

### Friday's events and market view

The UK will publish industrial production, manufacturing production and the index of services, together with the monthly GDP estimate for February, but these monthly readings tend to be quite noisy. From the eurozone we have a number of final CPI inflation numbers for March from Germany, France and Italy, but these usually don't change much from the preliminary figures released earlier and thus are unlikely to have a noticeable market impact. Of more interest will be the ECB Survey of Professional Forecasters. US events includes data for import prices and the Michigan sentiment measures and a few Fed speakers.

## Author

### **Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

### **Michiel Tukker**

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

### **Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@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](http://www.ing.com).