

Rates Spark: Rates still look up amid contained banking concerns

A lack of notable data releases allows EUR rates look up again amid hawkish central bank talk. Banking jitters continue to add volatility, but scanning the usual indicators of systemic stresses shows these concerns remain largely contained. The US 10yr auction was very fine. The 30yr Thursday is the bigger test. Still eyeing moderate upside to yields



The US 10yr auction was very fine. It came at 1.2bp through the 'secondary market', and so with a negative tail, which is of course good and indicative of firm bidding at auction. The indirect bid (typically from large, and from off-shore players) was impressive at 71%, which takes pressure of the primary dealer and direct dealer bid to do the work. No supply hiccup here. The 30yr Thursday is the bigger test, as its longer in interest rate risk, and has shown a habit of tailing in past number of offerings.

But just as the Federal Reserve is in something of a holding pattern, so too is the the 10yr Treasury yield. The 4.1% area is the top end of the 3.8% to 4.2% range seen so far in 2024. We feel that above 4% makes sense, and we need to have a good excuse to crash back below 4%. It's easier to do some edging higher in the coming few weeks. Nothing dramatic. More testing out tolerance for

elevated levels. We've argued that somewhere in the 4.25% to 4.5% range is where the 10yr will feel a bit topky.

EUR rates look up amid central bank talk, but banking jitters add volatility

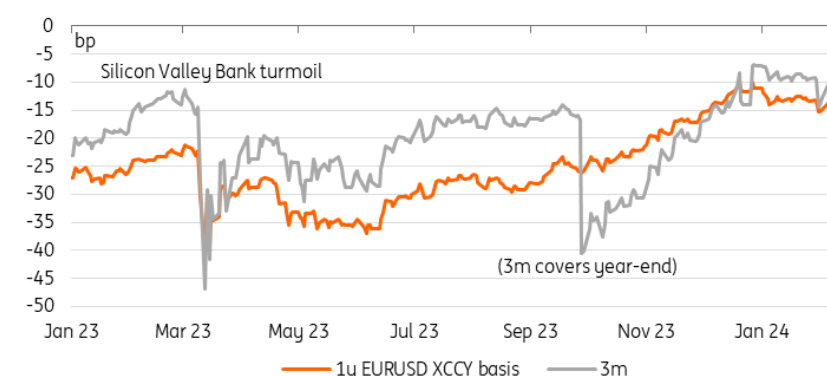
European rates continued to nudge higher on Wednesday. This time the front end was in the lead after a relatively hawkish interview with the European Central Bank's Schnabel. She pointed out that her concerns that "the last mile may be the most difficult one" were not allayed by recent data and developments, explicitly mentioning the aggressive pricing of central bank easing and therefore loosening financial conditions as a factor.

Looking at the market's anticipated easing over the current year we are back towards 124bp worth of rate cuts being priced, and Schnabel certainly contributed to some 5bp having been shaved off again. At the start of February we had staked out expectations of 160bp, though the notable calming of expectations did come with the US data.

The banking story still simmers in the background and has sparked concerns over the commercial real estate exposures of some European banks. For now such concerns appear to be rather contained, though enough for smaller temporary rallies of 10Y yields on the back of headlines.

Typically one would look for tensions in the banking sector to leave their mark in the cross currency basis (XCCY) especially if concerns are systemic, as also happened in March last year. However, reactions here have been muted since regional bank concerns returned to the headlines late in January. We did see a widening (i.e. a more negative basis), and subsequent recovery, again also on Wednesday. But these moves have been confined to single-digit basis point figures.

Bank concerns simmer, but very much contained so far



Source: Refinitiv

Today's events and market view

Data calendars continue to have little to offer in terms of potentially market-moving events. The highlight is the US initial jobless claims, which had risen more noticeably above 200k last week. In Europe the speaker schedule looks more interesting with appearances by the ECB's Vujcic, Wunsch and Lane. In the US the Fed's Barkin has two public appearances.

The supply event to watch on Thursday is the US Treasury's sale of a new US\$25bn 30Y bond. So far the increased auction sizes for this quarterly refunding round have seen solid metrics in the 3Y and 10Y sales. 30Y have tended to be more challenging.

Authors

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@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 <http://www.ing.com>.