

## Rates Spark: Real low

Record low real yields across the world betray an exceptional degree of macro angst. Or do they? Don't look at rates in isolation. Other markets are fine. The tide of central bank purchases lifts all boats and normal liquidity conditions will only return at the end of the summer.

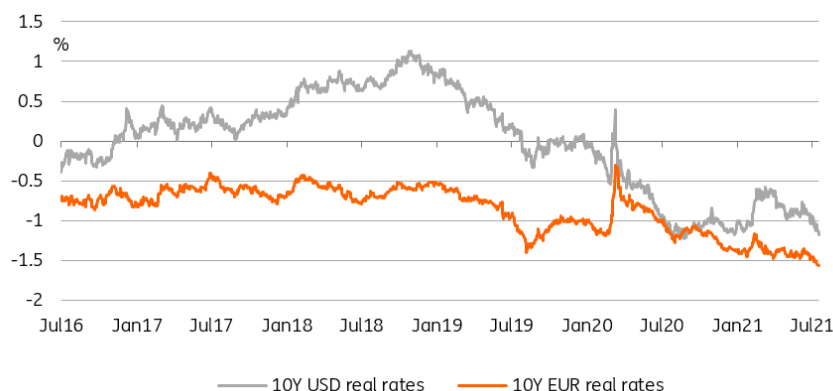


Source: Shutterstock

### Low confidence is mostly a rates thing

In an otherwise quiet session, much attention will be paid to US consumer confidence but we expect most risk-taking to be reserved for after the more significant events later this week, namely the FOMC meeting, US Q2 GDP, and PCE deflator. Nonetheless, consumers' outlook on the economy matters for the current market narrative, in particular with rates plumbing new lows in real terms. Risk assets on the other hand display none of the macro angst visible in bonds.

## Central bank purchases lift all boats, resulting in record low yields

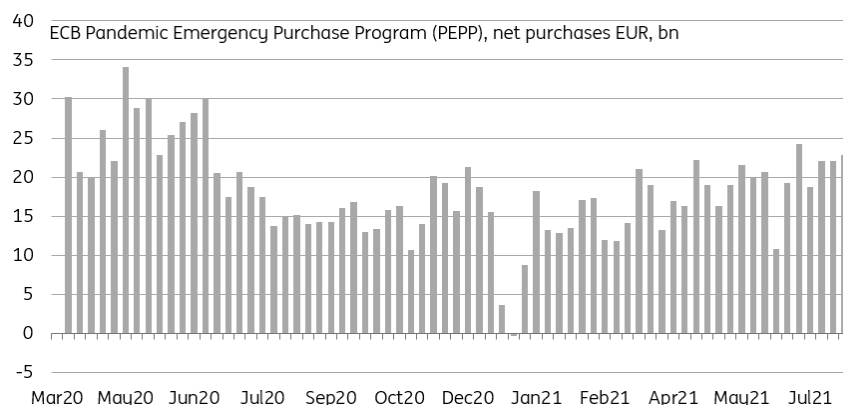


Source: Refinitiv, ING

### *Liquidity factors play a greater role in driving the market*

Should consumer sentiment continue to be impacted negatively by higher prices, bond investors would see their doubt about the sustainability of the recovery vindicated. This in turn could conceivably reduce US rates' ability to rise back as more liquid market conditions reassert themselves into September but we think liquidity factors play a greater role in driving the market. In the meantime, all bets are off, and we suspect the same causes (Fed purchases, lower liquidity, Covid-19 worries) will produce the same effect: low rates with little connection to economic reality.

## Higher ECB purchases hit yields particularly hard in poor liquidity conditions



Source: ECB, ING

To illustrate this point, for the third week in a row the ECB published weekly PEPP purchases in

excess of €22bn. This implies a monthly rate in July that exceed the €80bn of previous months and could be a result of a front-loading strategy ahead of a further reduction of liquidity in August. Higher central bank purchases are a prime reason for low rates and flatter curves but a slowdown in August will not necessarily bring higher yields, due to a slowdown in supply. A more likely turning point in our view is when the September supply surge comes into view. In the meantime, rates could drop lower still, but don't read too much into that.

## Today's events and market view

Economic releases of note will mostly come from the US. Durable goods orders for June and consumer confidence are the highlights.

The US Treasury will help provide some much needed liquidity to the bond market, with a 5Y T-note auction.

We doubt there will be much appetite from market participants to add new positions ahead of tomorrow's FOMC event risk but we cannot exclude profit taking on tactical longs opened in the July rally. This should at least prevent a further drop in rates today, but not after the meeting if we receive no strong signal on tapering.

## Authors

### Padhraic Garvey, CFA

Regional Head of Research, Americas

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

### Benjamin Schroeder

Senior Rates Strategist

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