Article | 31 July 2026 RATES SPARK

Rates Spark: Recalibrating rate assumptions

Markets have a lot of new information to absorb from this week, and we can expect more rates volatility going forward. We see scope for a more dovish repricing for USD and GBP rates, but longer rates could see upward pressure. Robust eurozone macro data allows euro swap rates to settle higher

With central bank decisions, macro data and geopolitical tensions, we see volatility ahead for rates markets

Central banks, macro data and geopolitics: a volatile cocktail

Markets have a lot to absorb, and we should brace for more rates volatility. Eurozone growth seems to be holding up, with the headline GDP figure for the second quarter on par with the US number at face value. Don't expect a stellar uptick in Europe's growth from here, but at least the downside risks from the geopolitical turmoil haven't seemed to materialise. In effect, the European Central Bank can focus more on inflation than on growth, supporting the hawkish stance of markets. Positive market sentiment and higher US rates also add upward pressure to longer rates, which means the 10Y euro swap rate can probably find comfort around the 3.2% handle.

In contrast, we see a stronger case for a dovish repricing in USD and GBP rates at the moment. After a hold by the Federal Reserve and a benign PCE deflator, markets no longer see the Fed hiking twice over the coming year. Having said that, September will be a difficult meeting to remain on hold. Learning from the reaction to Wednesday's meeting, we don't think markets will take it lightly if Fed Chair Kevin Warsh doesn't show full dedication to fighting inflation. And with little to no forward guidance, markets are left in the dark for many weeks. That leaves longer US rates exposed to another push higher.

The Bank of England managed to comfort markets about the inflation trajectory, in line with our own economists' views. This should give the BoE more time to hold the policy rate, with markets now only pricing in a 30% probability of a September hike. For longer rates, the story remains more complicated, however. The 10Y GBP swap rate tends to follow US rates, for which we still see more upside risks in the near term. As such, similar to the US, we think steeper curves are the natural next move from here.

Friday's events and market view

The Bank of Japan is the last major central bank to meet this week. Markets see a hold, and so do we. From the eurozone, the CPI number for July will be the highlight. Consensus anticipates the core CPI remaining stable at 2.4%, which would provide comfort to concerns about second-round inflation effects.

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