

Rates Spark: Relentless

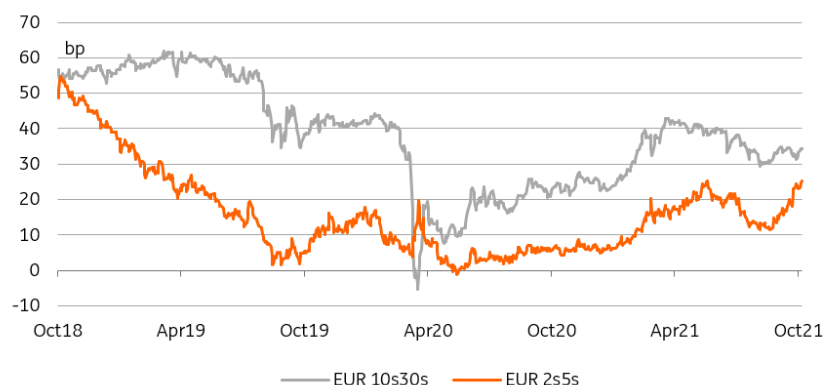
Through the volatility and near-term retracements, the trajectory for developed markets interest rates is higher, even if a sudden drop in energy prices helped bonds stabilise yesterday. ECB minutes could betray more inflation worries.



Hot topics in the ECB minutes

The minutes of the September European Central Bank minutes should make for interesting reading. Whilst they rarely provoke dramatic market moves on release, they play an important part in framing the discussion ahead of the upcoming meetings. In this instance, the focus will be squarely on how much upside risk to the official forecast members saw. If this debate may seem dated as it precedes the spectacular jump in energy prices in late September/early October, it could still inform markets of how high the ECB's inflation pain threshold is. Note also that immediately after the September meeting, some members highlighted upside risk relative to the official forecast, it would be significant to see this being discussed in the minutes.

The EUR front-end is geared for tightening, the long-end not so much



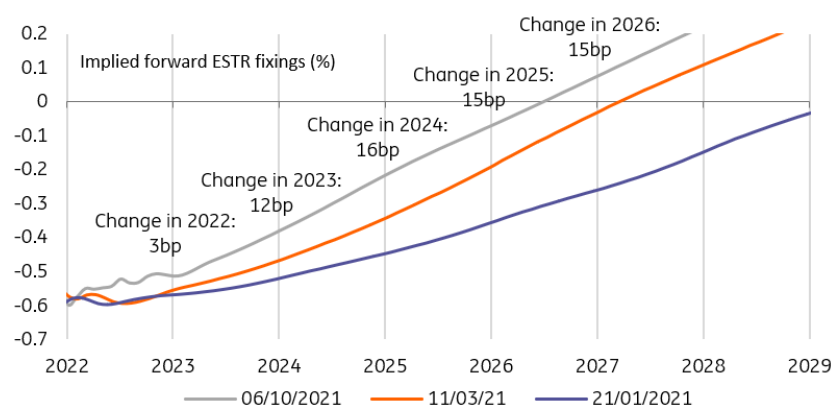
Source: Refinitiv, ING

The other key topic is asset purchases. The governing council took the decision to ‘moderately’ reduce the pace of PEPP purchases (although this has yet to show in weekly purchase data). We doubt the minutes will make anything else than oblique reference to the upcoming decision of whether to boost the APP (the other programme) and to terminate PEPP as planned in March 2022, let alone any hints to plans for a new purchase programme that the ECB is studying according to [Bloomberg reports](#). Still, the arguments used to support or oppose lower PEPP purchases will give markets an idea of the relative strength of hawkish and dovish camps.

The EUR rates market has largely run ahead of any official hawkish shift

To a large extent, pricing in the EUR rates market has largely run ahead of any official hawkish shift, but more concerns voiced about inflation would achieve to push front-end rates higher, and steepen EUR 2s5s further. The path for the deposit rate implied by OIS swaps puts the first hike in the course of 2023, with an acceleration of tightening in 2024. This is an already ambitious path but it is not inconsistent with action by other developed market central banks, for instance the Fed and BoE. As a result, even if we doubt it will be achieved, a more hawkish pricing and higher front-end EUR rates could well happen in the near term.

The EUR swap curve is already pricing tightening for 2023



Source: Refinitiv, ING

Today's events and market view

There is a flurry of euro sovereign issuance today, starting with Spain (7-26Y, including linkers) and followed by France (10-45Y). Long-dated bonds have enjoyed a brief moment in the sun yesterday after a bruising few weeks. We expect investors to be more cautious when it comes to absorbing duration going forward, even taking the higher rates into account.

There will be renewed focus on the ECB's policy stance and on the decisions to be taken at its December meeting. No less than Frank Elderson, Philip Lane, Robert Holzmann, and Isabel Schnabel are also due to make appearances. This will come on top of the release of the September ECB minutes.

Things will be comparatively quiet on the data front, with only US jobless claims in the afternoon.

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