

## Rates Spark: Resuming on up

The 10Y Bund yield crossed over the 0% line for the first time since May 2019. While brief, it marks an important waypoint as rates pressured higher against the backdrop of global monetary policy tightening. Today's ECB minutes may well reveal a more worried ECB than Lagarde let shine through in December, suggesting more catch-up for EUR rates



### US rates ease off the highs but should stabilise, barring a Ukraine surprise

The concession built in the past number of weeks helped secure a decent 20yr bond auction reception yesterday, and an unusual negative tail. The indirect bid was also firm, indicative of decent foreign interest. One of the characteristics of the price action in the past few weeks has been in fact that. It's been more about price adjustment than volume bullying prices. We have not had a buyers strike. Rather there has been an adjustment of the level of yield to better reflect circumstances.

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Given the -60bp real yield on the 10yr year, there remains a journey to the upside to complete. One that should take out 2% to the upside. Even on weak Omicron-induced data, the markets should look beyond this. One issue that we need to keep close tabs on is Ukraine. President Biden was far from convincing yesterday at press conference that he had control of the situation. Any subsequent material incursion into Ukraine has the capacity to rattle markets and put a bid into Treasuries. Barring that, we maintain our upside test for yields call.

## **Technical factors helped lift Bunds over 0%, but the main theme is that of sooner and faster policy tightening**

Take the global inflation surge that as prompted the monetary policy shift from central banks around the world and add the front loaded Eurozone bond issuance at the start of the year and you have a concoction of headwinds that was prone to push 10Y Bund yields into positive territory eventually.

The emergence from sub-zero space has proven short-lived so far. The zero line is a psychological level where some may see some value again – or at least no penalty – so a breather on the way up would not surprise. Some relief may also come from the fact that we should have seen the peak of the first issuance surge in government bonds once we conclude with today's scheduled auctions from France and Spain.

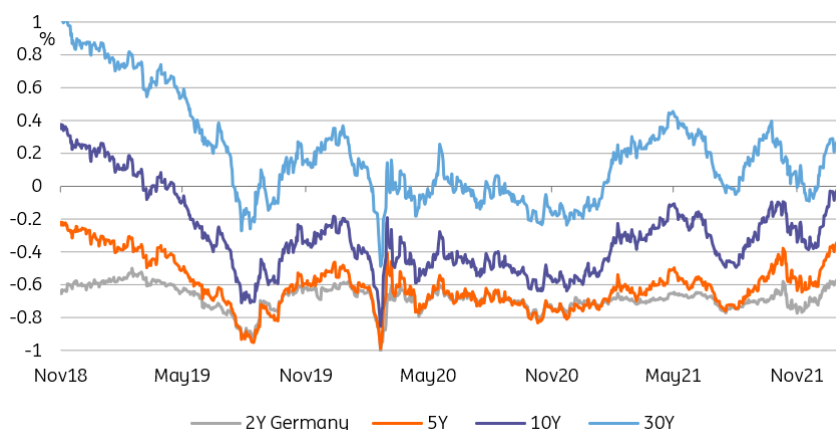
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## *We don't think we have seen the end of higher rates*

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Don't be distracted, the overarching theme remains that of sooner and faster policy tightening. While there appears to be growing numbness to headlines such as the UK just printing its highest inflation in 30 years and the Bank of England governor warning of a further deteriorating inflation outlook – arguably expectations regarding the BoE and also the Fed are already well advanced – we don't think we have seen the end of higher rates. EUR rates especially should have more room to catch up as the ECB has so far been more reluctant than its counterparts to abandon the transitory-inflation storyline.

## 10Y is the latest point on the German curve to rise above 0%



Source: Refinitiv, ING

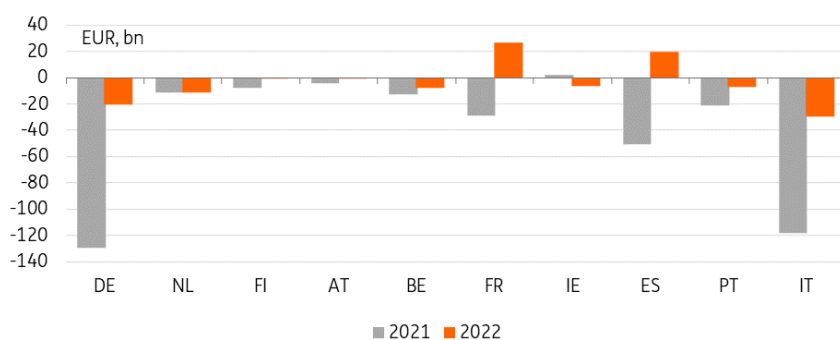
## The ever cautious ECB has already created hawkish facts on the ground

More recently officials have started to put more emphasis on the upside inflation risks again, the latest to do so was France's Villeroy yesterday stressing the ECB's capacity to quickly adapt should inflation turn out more persistent than policymakers expected.

*The minutes may well reveal a more worried ECB than Lagarde let shine through in December*

Today's ECB minutes may well reveal that policymakers were more worried than ECB president Lagarde let shine through at the December press conference. The main take away for market watchers at that time was that of an ECB being [as cautious as ever](#). Nevertheless, that meeting saw it decide on a downward trajectory for QE purchases that we find consistent with an end in December 2022.

## Net flow after ECB buying is already becoming less supportive for EGBs



Source: Debt agencies, ECB, ING

That new QE trajectory [has already changed the technical backdrop for eurozone government bond markets](#). Take German Bunds: the net overall cash flow to investors, i.e accounting for bond issuance, redemptions, coupons and what the central bank absorbs, has shifted from deeply negative to almost balanced. France government bond investors will see themselves confronted with a cash flows flipping well into positive territory.

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*Syndicated new issues have witnessed far less impressive demand statistics than a year ago*

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And just looking at the syndicated new issues this week, we have witnessed far less impressive demand statistics than a year ago, and some corner of eurozone government bond markets are already taking more note of this – cue 10bp spread widening for Greek government bonds on the back of yesterday's newly launched 10Y benchmark.

## Today's events and market view

We don't look for a hawkish surprise in today's ECB accounts akin to what we witnessed coming out of the December FOMC minutes. But we do think they may show the ECB being more worried about inflation than Lagarde has let shine through at the December press conference.

In supply we see French and Spanish auctions capping a busy issuance week. We would not exclude post supply relief taking the rally further in coming sessions. Also, feeble risk assets on the back of the impending policy tightening and still lingering geopolitical jitters can add an element of flight-to-safety and a tug-of-war with policy-error fears in rates. While that may well limit the steepening of yield curves, it should not prevent higher outright rates further down the road in our view.

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