

Rates Spark: Riding the hawkish wave while it lasts

Momentum may wane now that key levels are being approached and supply as a compounding factor is slowing. But fundamentally there is little in the upcoming week standing against further hawkish repricing aside from potentially dovish vibes out of the Federal Open Market Committee minutes



Data remains key, but central bank comments help

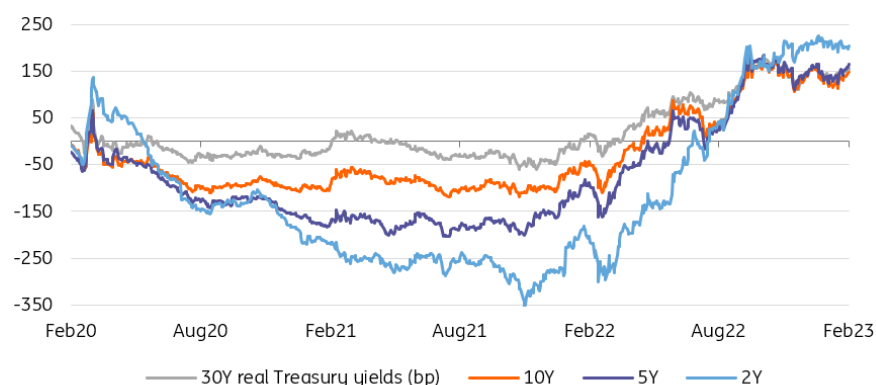
Markets do appear a tad selective, jumping on data that fits ongoing hawkish repricing in rates markets such as yesterday's higher-than-expected PPI, largely dismissing initial jobless claims creeping higher and regional surveys disappointing. It does provide fertile ground for hawkish Fed comments such as those by James Bullard, who said that he would not rule out supporting a 50bp hike next month with the aim of eventually bringing the Fed (mid)rate to 5.375% from 4.625% currently. Pricing a peak SOFR rate of 5.24%, markets already see the Fed getting close to there, if not as fast. But it was the back-end getting a lift again with the curve steepening and the 10Y UST yield testing above 3.85%.

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Bund yields saw a more uniform shift higher across the curve yesterday alongside US rates. The 10Y Bund yield is testing the air above 2.5% and there was little yesterday's European Central Bank doves could set against it.

If anything, ECB arch-dove Fabio Panetta was, in our view, not as dovish as he could have been. Arguing for a slower pace after the quasi-preannounced 50bp hike in March doesn't have him standing in the way of 25bp hikes in May and possibly June – the market has these already firmly priced in discounting 104bp of tightening March to June, and rates downside from here seems limited given the dove's nod of acceptance. What we witnessed yesterday to a greater degree again was the market pricing out the subsequent easing. From (now a higher) peak in 2023 through the end of 2024, that has been whittled down towards 80bp from around 100bp prior to the ECB meeting.

Real Treasury yields didn't really decline in 2023, and are now back at their cycle highs



Source: Refinitiv, ING

Market pattern more likely to extend, subject to data

It is a market pattern that may well extend for now, but it remains crucially dependent on the data. Looking ahead we have warned that data surprises for January can to a large degree be traced back to seasonal adjustments and weather quirks, leaving them exposed to a reversal in February.

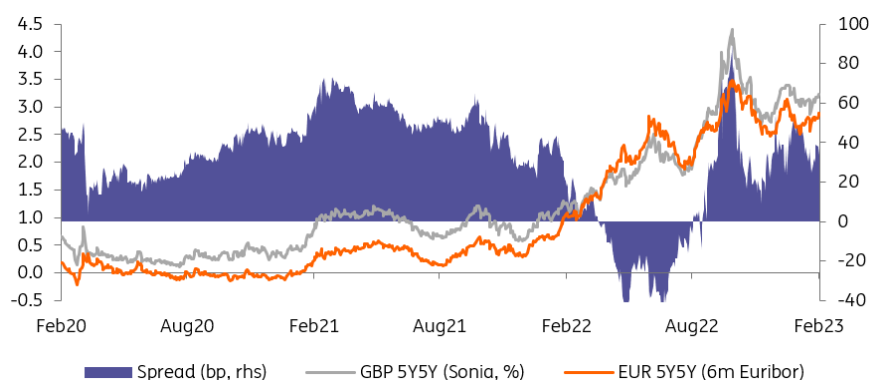
Next week already holds the first data points for February, though with the PMIs it's sentiment data rather than hard data. As such, they may still support the bearish undertone in rates markets. The consensus seems to build around a more upbeat release again.

To round the bearish picture off we will also get the release of the final inflation data, more closely watched this time around since the German data had not been available in time for the first estimate – revisions are possible, if not likely. The first release was also light on details, and investors will pore over components such as service inflation.

The FOMC minutes can produce some relatively more dovish headlines

The main test to the hawkish repricing narrative this week may come from the Fed itself, though. The FOMC minutes will be released on Wednesday, giving a broader representation of the views presented in the discussions ahead of the policy decision. We know that Fed Chair Jerome Powell tends to be more hawkish than the broader FOMC, which implies the minutes can produce some relatively more dovish headlines. Of course, the market may dismiss such comments as being overtaken by the recent surprisingly strong data, even if there are some serious question marks behind the sustainability of that strength.

The end of hiking cycles should bring a convergence in rates, eg between GBP and EUR forwards



Source: Refinitiv, ING

Today's events and market view

The hawkish repricing maintains its momentum, 10Y UST yields are just a smidgen away from their local year-end high, 10Y Bund yields have tested the air above 2.50%, which they previously only have done briefly in October and around year-end. While we maintain our outlook for lower yields by the end of the year, the current repricing has little standing in its way for now. Supply in Europe taking a break from the duration-heavy syndication we have seen of late may remove a technical factor, but we think the upcoming test will be next week's FOMC minutes.

There is very little of note on the data calendars for today besides perhaps US import prices. From the Fed, we will see appearances from Tom Barkin and Michelle Bowman. The only ECB speaker scheduled for today is France's Francois Villeroy.

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