

## Rates Spark: Setting the post-summer tone

While today may prove a quiet session, the summer holiday is drawing to a close. Recent data and central bank comments have set the tone for the coming weeks – there is still much to do to rein in inflation. Supply activities picking up points to higher rates ahead, while some likely dire economic data will have to be digested



### Shifting the discussion from pace to end point?

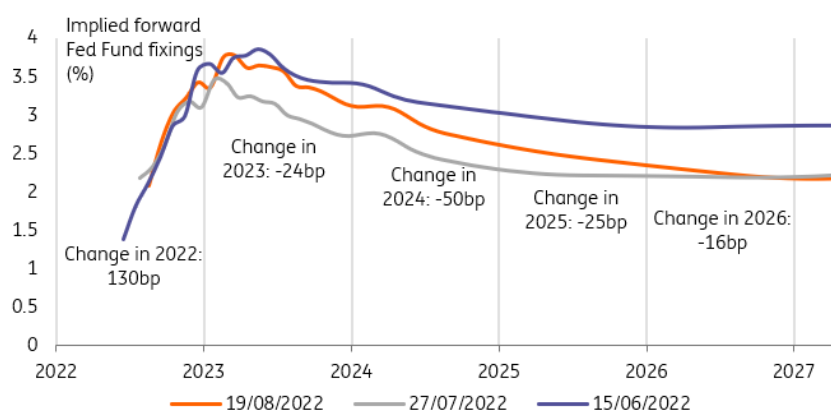
Recent Fed commentary has provided a more balanced picture after the markets' dovish read on the latest FOMC minutes. Federal Reserve Bank of San Francisco President Mary Daly has explicitly countered the notion that the first rate cuts could follow already, soon after the Fed pushes rates into restrictive territory to achieve its inflation goals. She sees the Fed following a raise-and-hold strategy, although to be fair her definition of restrictive territory as being “a little bit” above 3% looks somewhat dovish compared to the market's expected peak of 3.65% in the fed funds rate early next year. More hawkish tones came from Minneapolis Fed President Neel Kashkari who sees more to be done on rates, even if that makes a recession more likely. The Fed's James Bullard was more explicit in leaning towards another larger 75bp hike in September.

Whether we get 50bp or 75bp, in the eyes of the market it is still a coin toss with the forward

pricing in an increase of around 63bp. And more important than the question of whether the Fed switches to a slower pace will be if this changes the endpoint – that is less clear and is unlikely to be answered soon.

More clear is that the direction remains towards higher rates for now. What that means for the curve will in part be governed by data, which just now has allayed some of the recession fears helping to dampen the current curve inversion. But between now and the September FOMC meeting still lies one more CPI print and jobs report. And closer at hand, all eyes will turn to Fed Chair Jerome Powell's appearance at next week's Jackson Hole symposium.

## The Fed is pushing back against 2023 rate cut expectations



Source: Refinitiv, ING

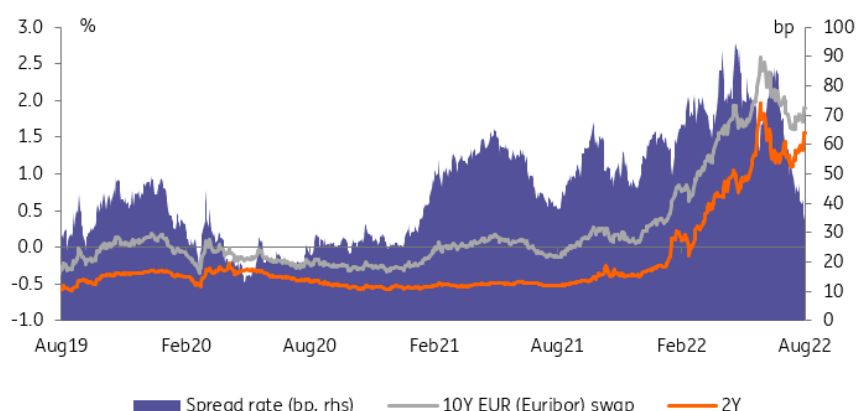
## EUR markets are facing bleaker prospects

The picture for the eurozone has gotten bleaker. While recession fears have grown and will likely find more confirmation in next week's flash PMI and German Ifo releases, the European Central Bank's Isabel Schnabel has made it clear that the ECB is not losing its inflation focus. The ECB, too, is not done yet and she signalled another larger hike – in this case, 50bp – for September. Since the meeting in July, the inflation outlook has not improved, the risk of inflation expectations de-anchoring has increased, and even if the economy entered a recession that would not be enough to dampen inflation pressure on its own, she said.

While she – and by extension the ECB – continues to be more optimistic about the growth outlook than we are, her comments seem consistent with our view that the EUR curve will continue flattening on the combined effect of recession and inflation risks. One can still question by how much the ECB will eventually be able to hike as it keeps underestimating recessions risks.

Markets could get some more insights into how the ECB sees the economic backdrop in the ECB minutes of the July meeting, which will also be released next week. It will definitely be one of the more interesting accounts given the ECB's decision then to drop previous guidance and hike by a larger 50bp. The other topic of interest will be the Transmission Protection Instrument, which was announced then with the aim of providing a backstop to the widening in sovereign bond spreads.

## We expect more EUR curve flattening but supply complicates matters

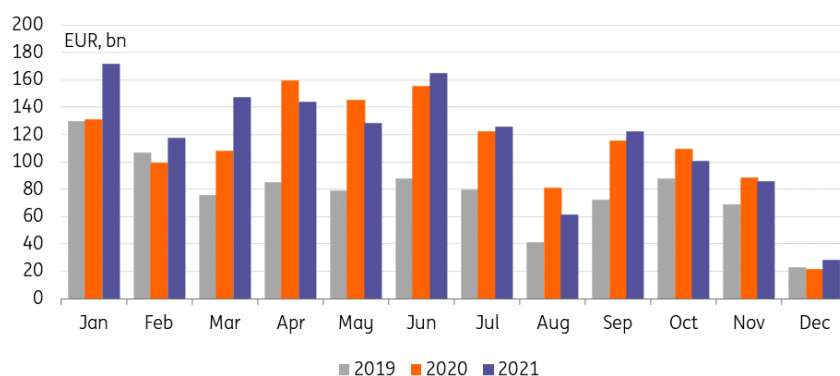


Source: Refinitiv, ING

## Bond supply about to pick up pace

One indicator of the summer holidays drawing to a close is the pick-up in supply activity. This week for instance has already seen the German KfW launch a new 5Y for €5bn in the SSA sector. That should be followed up by syndicated deals next week from the EFSF which has sounded the market this week with an RFP and possibly Finland, which traditionally is one of the first issuers to kick off the post-summer supply season. In previous years, September has been the month with the highest issuance post-summer and already Germany, the Netherlands and the EU have flagged deals for that month. Other possible candidates are France and Belgium.

## Monthly eurozone sovereign and EU bond issuance



Source: Debt agencies, ING

## Today's events and market view

Today is a quiet day in terms of data and supply. Nonetheless, when market participants start to return from their holidays and look back at the past days and weeks, they will find central banks still far from having achieved their goals of reining in inflation. That means a continued tussle between central bank tightening expectations and recession fears.

In the eurozone, the pick-up in (government) bond issuance activity after the summer break may help push rates higher, at the very least it could dampen the flattening dynamic we still expect to dominate, considering the market will likely have to digest some dire economic data as well next week.

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