

Rates Spark: Sizeable rate moves expected in 2025

US core CPI is expected to come in at 0.3% month-on-month, which on an annualised basis is not great. So despite cooling growth, this does push back against the bullish case for USTs. But the bigger market moves will come next year, which we outline in our [Rates Outlook for 2025](#)



The landing zone of central banks is a key theme for 2025, but plenty of other drivers to watch

Whilst markets will be watching the US CPI number on Wednesday, the bigger moves in rates will show up in 2025. In [our Rates Outlook for 2025](#), we touch upon the drivers for rates going into next year, including our 5%+ target for the 10Y UST yield, a steeper euro swap curve, the latest on European government bonds and Sovereign, Supranational, and Agency spreads, and the rates implications from Dutch pension fund reforms.

The key theme is the normalisation of policy rates, but the ride down to the landing zone could be bumpy. Inflation remains stubborn in many countries and yet growth seems to be cooling down. The European Central Bank is clearly taking a dovish stance and we expect a landing zone of

1.75%, just below the neutral estimate of 2-2.25%. But in the meantime, markets may get too greedy and we could see some undershooting in terms of EUR rates to the downside.

Besides monetary policy, we see [US fiscal dynamics](#) as an important driver for the UST yield curve, and with spillovers to global yields. [Higher issuance](#) will be expressed in a steepening of the curve from the back end and wider swap spreads, keeping UST rates well above most other developed markets. The higher US rates will have spillovers to other jurisdictions, and for the euro swap curve we forecast that 10y rates could actually be pulled higher by the end of 2025 than current levels. Having said that, the downside risks to EUR rates cannot be ignored, and with plenty of (geo)political risks in the region risk sentiment may be challenged.

Supply will also play an important role for [SSA](#) and [EGB spreads in 2025](#), given QT is continuing in the background and issuance remains elevated. The two largest EUR SSA issuers just announced their funding plans for next year. The EU anticipates issuing around €160bn – the upper end of estimates – compared to €138bn this year. KfW announced a target of €65-70bn after €78bn issued this year. However, with a faded USD funding advantage, a reduction of the EUR-denominated part which reached €48bn this year might not be proportional. Importantly, both names might find themselves exposed to very different degrees to two other key drivers of eurozone bond spreads, the performance of [Bunds versus swaps](#) and the fate of France.

We also dive into the latest [Dutch pension fund reforms](#), which given their sheer size in swap markets cannot be ignored in 2025. The premise is a transition from a Defined Benefits to a Defined Contributions model, which should reduce the reliance on longer-dated interest rate hedges (30y+). But in the meantime, the risk appetite of these funds could be limited to ensure a smooth transition, which means that the demand for shorter-dated interest rate hedges (e.g. 20y) could remain strong in 2025.

Today's events and market view

US core CPI is expected to come in at 0.3% MoM, which is hot when annualised. Whilst growth concerns have taken over as the main driver of US rates, getting overly bullish on USTs is difficult if such a number is confirmed. Little other data is scheduled.

Politics in France are a space to watch with headlines on Tuesday indicating that President Macron was planning to name a new prime minister "within 48 hours" – the ambitious aim being to prevent new legislative elections before 2027. A special law to keep the state functioning after the 2025 budget failed will be presented today and debated by lawmakers on 16 December, with most parties having already indicated to support it.

The UK will issue 10y gilts for a total of £4bn and the US has a 10y note auction scheduled for \$39bn.

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