# Rates Spark: It’s confirmed, long-end yields rise if Powell were to go

We saw an interesting experiment played out on Wednesday as the market seemed to genuinely believe that Fed Chair Powell was about to be removed. We continue to identify this as a low probability event, but we examine how markets behaved in reaction to it, as a mini-version guide on how it might behave if it really did happen. No surprises...

US PPI for June came in below expectations at 0.0% month-on-month

## Market reaction to Fed Chair Powell

We should really put to one side all of the speculation on Fed Chair Powell getting the sack. If he goes it's more likely that he chooses to leave, and even that is unlikely. But if he did, see here what we think would happen. Wednesday saw a preview of how it might go down.

It was as follows: 1. Short-end Treasury yields fall, 2. The dollar falls, 3. Equity markets fall, 4. Credit spreads widen, and 5. Long-end Treasury yields rise.

That's pretty much how we'd see it, but with one alternative. We think that the impact would indeed be risk-off, but we suspect that equities might just be tempted to subsequently rally on a theory that rate cuts are coming. But as we conclude in the report, in the end it would not end very well in all probability; better to leave the management of the funds rate with an unbiased Fed.

Beyond that, there was a decent reaction to Wednesday's subdued PPI inflation, with inflation generally a big talking point as we head through the coming tariff-impacted months. In the event, the June PPI outcome was super low at 0.0% month-on-month, and running at 2.3% year-on-year overall. If we stay here, that's super. The big issue really is where CPI inflation heads to, and we'll see more on that in the next few months.

## PPI was tame

The components from PPI that feed through into the Fed's favoured measure of inflation - the core PCE deflator - were fairly mixed, but point to that reading coming in at 0.2% MoM. Airline faires in PPI were much softer than in CPI (-2.7% versus -0.1%) so that would argue for a lower MoM PCE deflator, but portfolio management fees jumped 2.2% MoM. The healthcare components in aggregate were a touch softer than in CPI so that looks as though we are looking at a 0.2% MoM. The July, August and September inflation readings are the ones we (and the Fed) will be more nervous about.

Thanks to James Knightely for that.

## Treasuries like the PPI report

Treasuries liked what they saw from the headline PPI report, and unwound some of the sell-off seen on Tuesday. The 10yr real yield, which popped up post the CPI report, calmed back down towards 2%, and the 10yr yield back around 4.45%. We're still missing a steeper curve here, with the curve preferring to move in tandem (2yr at around 3.9%). That will change, we think. We're comfortable that front-end rates ultimately head lower, but less convinced on the 10yr, where we continue to see reasons for the yield there to remain elevated, if not head higher in the coming months.

One silver lining is tariff income on tax receipts, but the bigger picture sees the issuance pressure remaining elevated and an ongoing issue. Remember the US Treasury likely does $0.5tn of net issuance in the coming months, mostly in bills, but still, the long end knows its coming down the track at some point.

## Thursday's events and market views

The UK will open with jobs and earnings data, which will be watched closely for weakness after Wednesday's upside surprise of inflation. From the US we have retail sales together with export and import prices. Also, jobless claims will be monitored for a cooling jobs market.

In terms of supply we have an auction from Spain with 5Y, 10Y and 23Y SPGBs, together for €6bn. France will start with regular 3Y, 5Y and 6Y OAT auctions totalling €12bn and then follow up with 9Y, 13Y (green) and 14Y OATis for €1.5bn. With an increased focus on the ongoing budget discussions, the auction results could be interesting to watch.

## Author

**Padhraic Garvey, CFA**
Regional Head of Research, Americas
padhraic.garvey@ing.com

**Michiel Tukker**
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.