

Rates Spark: Some relief for bonds

Into next week's Fed meeting, bond markets will take heart from a slowdown in supply. It seems there are only hawks left at the European Central Bank, and collateral scarcity is here to stay

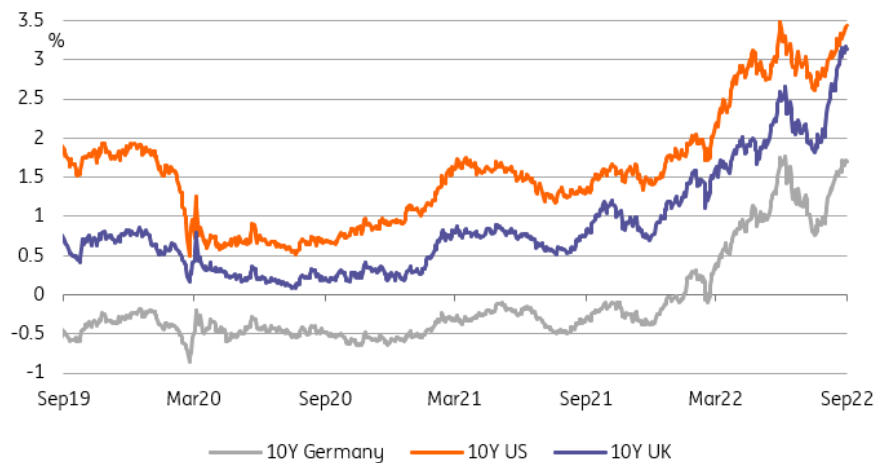


Markets left to their own bearish devices, but supply abates

With US inflation reports out of the way, and little by way of events until then, focus is turning to next week's Federal Open Market Committee meeting. Hard data from the US, in the form of August retail sales and industrial production, are the exception. They could dispel the impression that the US economy is going from strength to strength if, as expected, they show a slowdown from July. Our economics team expects a strong 3Q, however, which should in turn be of little help for bond markets trading mostly on macro drivers.

Thankfully, technicals might lend a helping hand. The end of this week's supply slate should help bonds regain their poise after a bruising week. We may have seen this at play already with the long-end bond rally late in yesterday's session. Today sees auctions from Spain and France but they are mostly short duration, hence adding to the flattening theme.

Bonds should take a breather before next week's FOMC meeting



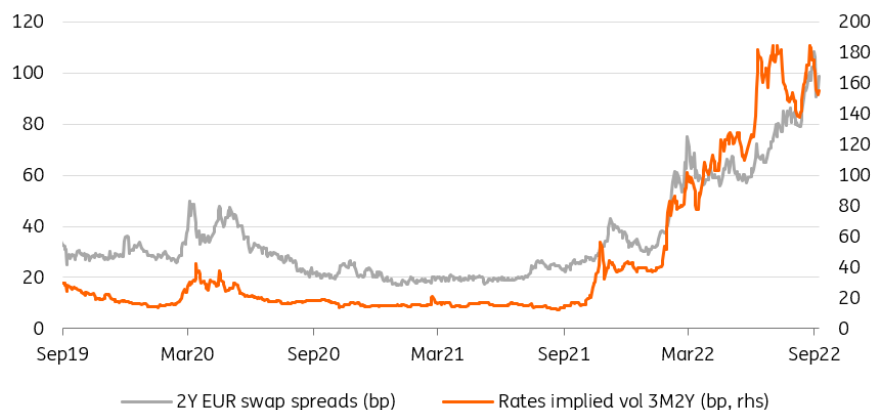
Source: Refinitiv, ING

Lane joins the hawks, and collateral scarcity remains unaddressed

In Euroland, European Central Bank Chief Economist Philip Lane seemingly endorsing the hawks' narrative in a speech is another clue that the central bank has experienced a significant shift in its reaction function. This is no guarantee of ever-increasing interest rates, but this means that the hawkish skew in the market reaction to future economic releases should be stronger than in the past months. Realistically, we won't get much evidence of that before the European PMI releases at the back end of next week. Until then, EUR markets will be at the mercy of moves in their USD and GBP peers.

Lane's speech was also a reminder that collateral scarcity issues will remain despite the ECB offering a delay to governments in finding alternative avenues to place their liquidity. Until April 2023, they will continue to earn the euro short-term rate on their deposits at the central bank, which at least delays the time when [more demand emerges for already scarce collateral](#). What the ECB has not addressed, however, is the initial collateral shortage, which Lane blamed in part on interest rate uncertainty and rates volatility.

Rates volatility has boosted demand for already scarce collateral



Source: Refinitiv, ING

Today's events and market view

Spain and France conclude this week's supply slate with auctions in the 3Y/5Y/8Y and 5Y/6Y/7Y sectors. Their short duration should add to the curve-flattening theme.

The Bank of England inflation expectations survey is likely to gather some attention one week ahead of its policy meeting, and as inflation fever grips markets. Other European data, eurozone trade and final French August inflation appear less market-moving to us.

Luis De Guindos and Fabio Centeno of the ECB are on the speakers list.

This is just as well because there is a full schedule in the US. Jobless claims are expected to edge up, while Empire manufacturing and Philly Fed indices should offer an early peek into business sentiment in September. Retail sales and industrial production are expected to slow down in August.

Author

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@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.