

Rates Spark: Soothing CPI data and extrapolated de-escalation

Despite cooler CPI data, trade de-escalation points to higher long-end rates. The Fed may have room to act earlier and thus less drastically overall, while the general headwind to growth is moderating. In Europe, Dutch pension reforms could have clarity soon as the delayed vote on a potential rule change should be rescheduled to next week



Despite cooler CPI data, trade de-escalation points to higher long-end rates

Longer rates remain subject to upward pressure as trade tensions are de-escalating, while the front end got some reprieve as the US CPI data soothes imminent inflation fears. 10y UST yields have further tested towards the 4.5% upper end of their range while 10y Bunds came close to 2.7%, which is still some distance from the 2.9% peak of March.

In Europe, markets are currently not even fully pricing two European Central Bank cuts before the end of the year. But at 1.7%, the market implied forward for the rate at the end of 2025 remains slightly dovish, leaning in the context of the 1.5% to 2% range it has spanned this year. The 1.5%

was seen just before the de-escalating headline. The 2% market is the peak optimism on the back of German spending plans.

ECB officials try to serve as an anchor amid volatile markets and continue to sound more cautious. Knot and Makhoul highlight that uncertainty will be negative for growth and will require the full agility of the ECB. Trade negotiations between the US and the multi-nation EU bloc could indeed prove more tricky.

Dutch pension reforms could have clarity soon

As expected, the vote on the change in Dutch pension reform rules was delayed, but the timelines going forward are shorter than expected. Today, parliament will come together to discuss an updated proposal. The vote will be scheduled for next week, likely on 20 May. At least this shortens the uncertainty about potential delays. Approving the proposal would require pension funds to offer participants an opt-out and instead keep accrued pensions under the old defined benefits system. Such a change would mean that a transition date of 1 January 2026 for many major funds would no longer be realistic.

The updated proposal keeps the opt-out clause as the default option. Funds can also still choose to go for a vote of approval, which would need a majority and a minimum of 30% participation rate. Compared to earlier versions of the proposal, it now includes more communication requirements. The annexe of the proposal also attempts to address some of the concerns various stakeholders have voiced about the complexity of the proposed changes. Our baseline remains that the proposal fails to find a majority given the broad-based criticism. A lot will hinge on a few smaller parties. If approved, however, we could see some reaction in the long end of the swap curve as market participants reconsider their curve steepeners.

Today's events and market view

Markets will not have much in terms of data to work with today, but a busy slate of central bank speakers will make up for it. From the ECB we will be hearing from Escriva, Villeroy and Holzmann. The Fed sees speeches from Waller, Jefferson and Daly.

Belgium should be in the primary markets with a new 5y benchmark it mandated on Tuesday. Regular auction supply will be coming from Portugal in 7y and 20y bonds for up to €1.25bn and Germany in two 30y lines for €2.5bn. The UK sells £4.25bn in 10y gilts.

Author

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@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.