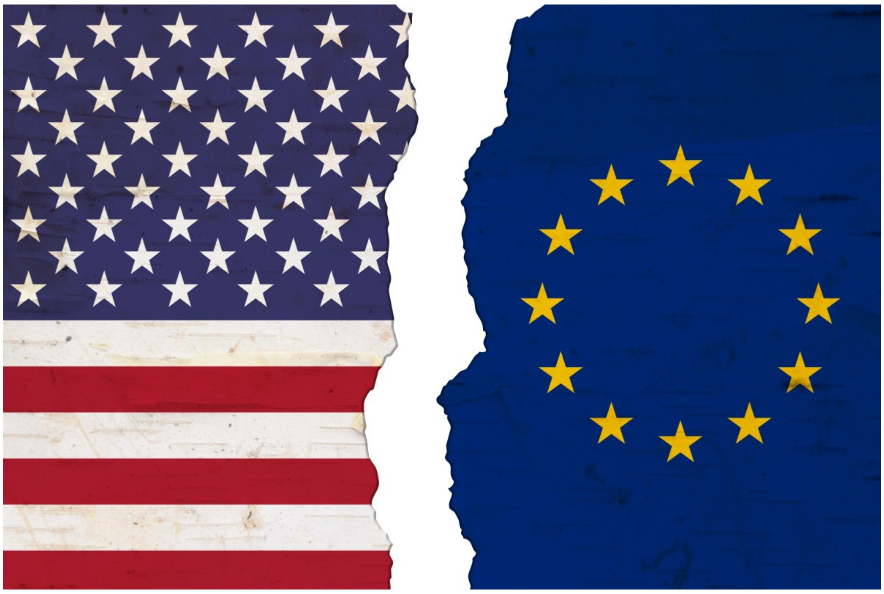
Rates Spark: Soothing CPI data and extrapolated de-escalation

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 Makhlouf 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.

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