

Rates Spark: Steeper curves amid US concerns

With the US tax bill making its way through the House, scrutiny of the country's fiscal trajectory will remain a headwind for long end rates, with weaker auction results only providing occasions to push rates higher. We doubt that markets will place much weight on PMIs as the trade backdrop remains volatile, even though it points to de-escalation for now



Weak 20Y Treasury sale spurs further long end sell-off

Long end rates remain under pressure. And the divergent narratives on the two sides of the Atlantic were underscored by the market's reception of the scheduled government bond supply.

While the upward pressure is a more global phenomenon which also lifted EUR interest rates as the path for the Dutch pension reform was cleared, yields here initially managed to retreat from their peaks after strong demand in the 10y Bund auction.

But that recovery did not carry over into the later US session. In a market increasingly attuned to concerns about deteriorating US government creditworthiness, a weaker 20y US Treasury auction

led to a spike in yields. While the 20y maturity has a tendency to be a trickier sell, the results were enough to push 30y yields beyond 5%, ending the day up by 10bp. The 10y yield rose to 4.58%. Risk assets were not able to detach themselves, with equities selling off alongside.

Amid the worries around rising US deficits a key focus of today will be the vote on the US tax bill that will likely take place early on Thursday after the bill passed the House Rules Committee. But also on the European side, any improvement in the PMI and Ifo releases today could reinforce the bearish steepening tendencies, with slight improvements expected on the back of the recent de-escalation on the tariff front. We doubt that markets will place too much weight on the flash PMIs as the trade backdrop remains volatile especially with a view to the EU.

Today's events and market view

The highlight of the day will be the eurozone flash PMIs. The consensus is looking for a slight improvement with the composite index seen nudging up to 50.6 from 50.4. Germany will release its Ifo at the same time.

There will also be more comments from European Central Bank officials to digest, including hawkish voices like Robert Holzmann and Joachim Nagel, but also Boris Vujcic, Luis de Guindos and Jose Luis Escriva. The ECB will also release the minutes for the April meeting.

On the US side, the S&P PMIs are not expected to move much but usually get less attention than the ISMs. The weekly jobless claims numbers are also seen as stable. Federal Reserve speakers are Tom Barkin and John Williams.

The supply side will be busier with Spanish and French auctions. Spain will sell up to €6.5bn across 3y to 17y bonds and France will sell up to €12bn in 3y to 7y bonds and an additional €2bn in inflation linked bonds. The US Treasury will sell US\$18bn in 10y TIPS.

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