

## Rates Spark: Steeper curves still path of least resistance

Trump not seemingly escalating the Greenland issue for now helps push euro rates up again. Better risk sentiment, together with continued supply pressures, should help the euro curve further. We therefore pencil in a further steepening of the 5s10s this year

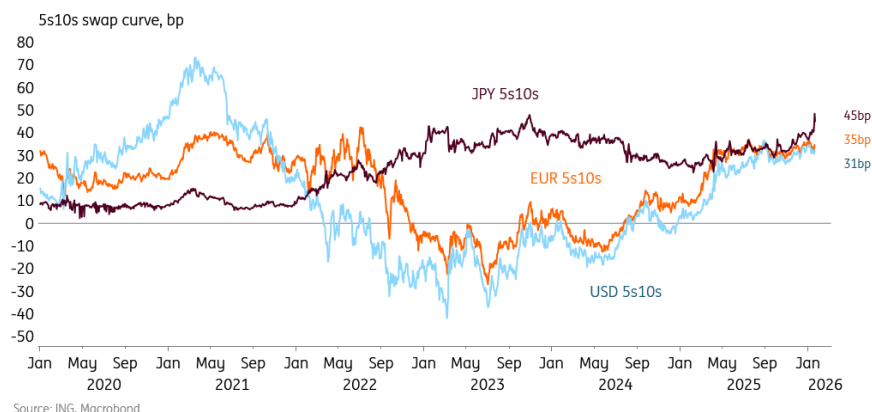


### Recovering risk sentiment helps euro rates nudge back up again

Market sentiment is recovering, and euro rates, in particular, are taking this opportunity to rise higher. At Davos, we saw Trump refraining from escalating the Greenland tensions, further helping to improve sentiment. The 10Y swap rate is back to 2.9%, but still below the earlier high of 2.96%. Meanwhile, the growth outlook in the eurozone is still on an improving trajectory, which together with high supply, helps build the case for higher rates in 2026.

A natural candidate to capture the improved risk sentiment and high issuance is a further steepening of the 5s10s curve this year. The spread between 10Y and 5Y captures the building of a term premium, the additional yield investors demand for holding longer maturities. Both quantitative tightening and increased government issuance should add to this term premium. In Europe, we likely won't see sharp moves like we've seen in Japan this week, but the overall direction should also be for steeper curves.

## EUR curve can still steepen further on supply pressure and improving growth



### Thursday's events and market view

The main releases of the day will come from the US with the Personal Income and Spending reports and the PCE price index, the Fed's preferred inflation measure. A monthly core reading of 0.2%, as the consensus expects, would be seen as benign. We will also get the weekly jobless claims figures and the final 3Q GDP figure. In the eurozone, the ECB will release the minutes of the December meeting.

Primary markets will see France auctioning short to medium maturity bonds as well as inflation-linked bonds for an overall volume of more than €15bn. The US Treasury will sell US\$21bn in new 10y TIPS.

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