

## Rates Spark: Still positioned for a short-lived shock

Sentiment benefits from another extension of a Trump-imposed deadline on Iran, but high oil prices suggest markets seek more concrete steps forward. The short-end of the curve remains oil-driven, but the long-end is more range-bound. Diving into CPI fixings shows markets are still positioned for a short-lived inflationary impact



With another US-Iran deadline approaching, we could see rates under flattening pressure

### Curve flattening before deadlines, steepening thereafter

Every day we see oil nudge a few dollars up or down and alongside 2Y rates, but longer-dated rates have not seen much change recently. In fact, if we look at 10Y EUR swap rates, we can identify a trading range of between 3.0% and 3.1% for most of the past month. The stability further out the curve is consistent with markets' expectations of a short-lived inflation spike, one that doesn't last long into 2027. CPI fixings suggest a rise in inflation to around 3% by year-end, but then falling to 2.4% by April 2027. And with long-term inflation expectations still anchored close to target, markets are not seeing a more prolonged impact.

We do, however, see flattening pressures when markets brace for a new flurry of geopolitical headlines and possible deadlines. During such days, like on Tuesday, markets hold their breath, putting the strong rally in risk assets on hold. But once headlines announce an extension or a new

step forward, as the latest headlines imply, the positive sentiment can pave the way to steeper curves again, with lower oil prices bringing 2Y rates down more than the stickier 10Y rates. Having said that, these latter dynamics do seem to have become more muted. As long as the Strait remains closed, oil and rates markets seem reluctant to take a more positive turn.

## Wednesday's events and market views

Besides UK inflation data in the morning (no big surprises), only US weekly mortgage applications could be of interest. The list of ECB speakers is more noteworthy. Chief economist Lane will be speaking about European safe assets first and later in the day attend a panel discussion. Lagarde will discuss global challenges in London, and other ECB speakers include Sleijpen, Kocher, Rehn and Nagel.

In terms of issuance, Germany will auction 15Y and 21Y Bunds totalling €2bn. In the US we have a 20Y Bond auction for \$13bn.

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