# Rates Spark: Supply indigestion

The weak US Treasury auctions over the past two sessions have helped push yields higher and resteepen curves. But the backdrop is still too-hot inflation and other data continuing to surprise to the upside. The focus in the eurozone today is on regional inflation data from Spain and Belgium


## A string of weaker US auctions helps drive yields higher

The notable move over previous sessions was the resteepening of curves, mainly via the long end. In EUR rates, we have bounced off what were the lowest levels of the 2s10s curve for the year at -59bp back to -48bp in a matter of three sessions, with the 10Y Bund yield pushing towards 2.7% – new highs for the year

Somewhat more dovish remarks from Europeam Central Bank officials this week may have helped to better anchor the front end. But this still leaves the long end exposed to being pulled higher in a move mostly inspired by US markets in the wake of better consumer confidence data and now a string of weaker Treasury auction outcomes – including Wednesday's 7Y auction. Attention is now on Friday's PCE data, but even if the 0.2% consensus is confirmed, one print alone in the right direction is not sufficent. 10Y UST yields are now pushing above 4.6%. This briefly pulled the 10Y UST-Bund wider to around 195bp amid an overall only modest rewidening tendency from last month's lows at just below 190bp.

But there were also domestic factors driving the move in European rates. German inflation data came in somewhat hotter than anticipated. The headline rate at 2.8% year-on-year on the harmonised measure was slightly hotter than the 2.7% markets had looked for, illustrating the stickiness of prices. Also a bad look was the rise in services inflation. Taken together with last week's higher-than-expected wage growth over the first quarter, markets are more likely to challenge the room for the ECB to cut rates beyond June at a time when officials also appear to shift the debate out the curve – a 'hawkish' ECB cut next week is starting to look more likely again despite some dovish comments of late.

## Today's events and market view

After German inflation data yesterday came in slightly higher in the headline than expected, the focus today is on the Spanish and Belgian inflation figures. For the bloc as a whole, we will get economic confidence indicators as well as unemployment data for April. Note that there is a public holiday in many parts of Europe today, including Germany.

The US sees the second readings on first quarter GDP growth, where some downward revisions are anticipated. Initial jobless claims, for a more contemporary take of the jobs market, are not expected to change much, ticking up to 217k from 215k. Pending home sales round off today's data slate. With the black-out period starting soon, eyes will also turn to the Federal Reserve's John Williams and Lorie Logan speaking today.

In primary markets, Italy will auction 5Y and 10Y bonds alongside floating rate notes for a total of up to €9.5bn.

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