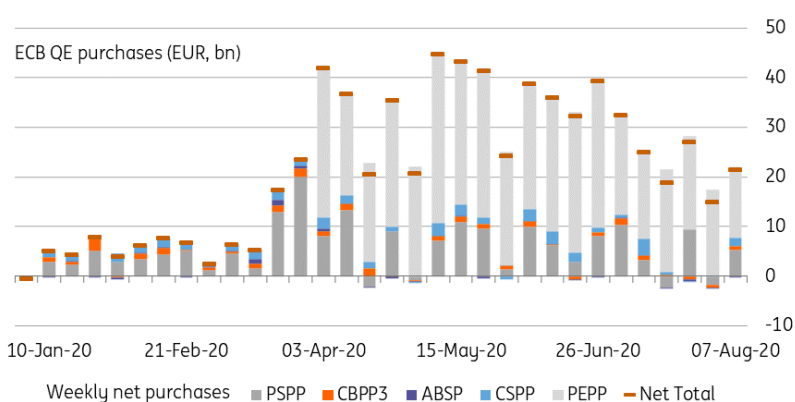


Rates Spark: Supply pressure

Most bad news is in the price; we expect the USD long-end to rise faster than the rest of the curve. Weekly ECB purchases slowed but the central bank still has a lot of ammunition



Source: ECB, ING

US Treasury auctions continue to weigh

Price action in USD rates so far this week is consistent with supply pressure impacting the curve. Renewed tensions between the US and China did dampen the mood but did not prevent the long-end from lagging the belly. We would expect the long-end to be under continued steepening pressure until Thursday's 30Y auction, especially since much of the weekend's bad news, a failure to make progress on US stimulus talks, is already in the price.

It is harder to justify the EUR long-end's sluggishness on the other hand. Limited supply this week means EUR government bonds should fare better than their US counterparts. Today's sessions should be fairly light on EUR-specific events so the lead from their USD counterparts should remain the main driver.

The one exception is the Zew sentiment survey. We do see a use for its expectation component, although a counter-intuitive one, and a different one from that of forward-looking indicators such as PMIs (we do think PMI should be taken with a pinch of salt too). Since the Zew is a survey of investors, it does shed some light on what level of risk appetite is consistent with current market pricing. If consensus is correct in predicting a decline in the expectations component, it would be bearish for Bund, as current pricing should be consistent with a degree of pessimism being already in the price. Inversely, a strong Zew would make the case for lower rates, as it would imply current

valuations are a reflection of optimistic investors' views.

ECB purchase programmes on a summer break

ECB net asset purchases totalled €21.5bn in the week ending 7 August, of which the pandemic emergency programme (PEPP) accounted for €13.8bn. That is the lowest weekly volume on record for this programme, although we assume that German and French bills' maturities during that week might have a higher gross purchase volume.

Purchases are bound to pick up again after the summer when supply activity resumes, but at the moment the benign dynamics in EGBs and spreads, in particular, do not call for larger intervention. So far the ECB has spent €454bn of its €1350bn PEPP envelope, leaving €896bn to be spent before the programme's end date in mid-2021.

Today's Events: UK employment Zew, NIFB, US PPI

In the absence of other drivers, data could be in the driving seat. The UK employment numbers will be followed by Zew survey results. In the US session, NFIB and PPI are the highlights.

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