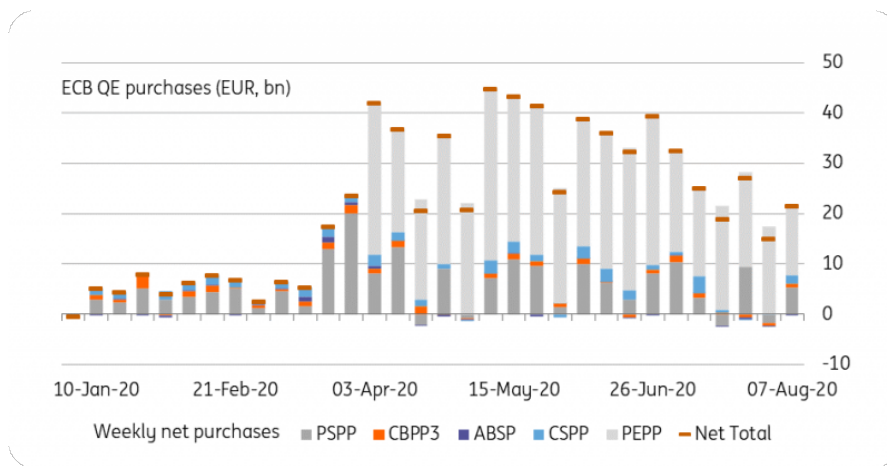


# Rates Spark: Supply pressure

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, NIFB and PPI are the highlights.

#### Author

##### Padhraic Garvey, CFA

Regional Head of Research, Americas  
[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

##### Benjamin Schroeder

Senior Rates Strategist  
[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

##### Antoine Bouvet

Head of European Rates Strategy  
[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

#### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

## THINK economic and financial analysis

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).