

Rates Spark: Tentative relief

Some tentative relief for the European Central Bank going into the meeting later this week as a Warsh Fed and better US data take some steam out of the USD weakening narrative. Risk sentiment in European bond spreads remains constructive, with Italy to launch a new 15y bond on the heels of an outlook upgrade from S&P



We think the European Central Bank could be relaxed going into its meeting on Thursday
Pictured: ECB President Christine Lagarde

Latest FX dynamics and energy prices help ECB stay in a 'good place'

The start of the week has brought some tentative relief to the ECB. The prospect of Kevin Warsh as future Fed Chair has taken some steam out of the adverse FX dynamics. The positive surprise of the ISM manufacturing PMI also helped by facilitating a slight hawkish repricing, i.e., bear flattening of the US curve.

Risk sentiment is also bolstered by a tentative de-escalation of Middle East tensions over the weekend which led to a further slide of energy prices from their highs at the start of the week.

We think the ECB could be a little more relaxed going into this Thursday's policy meeting, if the calm lasts. Generally speaking, the 'good place' is looking a little less comfortable, though, as the volatility over the past weeks has shown. A more dovish-leaning and cautious ECB could already prepare for eventualities in March. This is something that the press conference could reveal on

Thursday.

Italy to launch a new 15y benchmark amid spread tailwinds

On Monday, Italy mandated banks to launch a new 15y benchmark. While markets had been eyeing the possibility of a long-end bond in line with patterns seen in previous years, the sentiment for spreads has been very constructive since the start of the year. 10y spreads for Italian government bonds over their German peers have tightened by around 10bp over the past month, and the announcement of the mandate on Monday did not leave any lasting mark on the lone spreads levels.

Sentiment is also supported by S&P having upgraded the outlook for Italy's BBB+ rating to positive at the end of last week. In direct comparison to France, especially, where the 10y yields are trading at a similar level, this could tilt the market in favour of Italy again. France, after all, still faces political gridlock and uncertainty heading into the presidential election of early 2027.

Tuesday's events and market views

Following the French inflation data for January in the European morning, we will get the outcomes from the ECB's latest bank lending survey. The lending data can help assess the financial conditions in the eurozone and is used as input for monetary policy decisions. This report shouldn't be a market mover, however. In terms of US data, the Bureau of Labor Statistics announced yesterday that the jobs report on Friday will not be released due to the partial US government shutdown. Today's JOLTS report will also be delayed.

In primary markets, we start the day with a 15Y BTP syndication from Italy for an estimated €13bn. The UK will auction 10Y gilts for £4.25bn, and Germany 9Y green Bunds for €1.5bn. In SSAs, the ESM will be in the market with a new 10Y bond.

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