Rates Spark: The bar is high to move euro rates

Euro rates are happy with an ECB on hold and some inflation and PMI surprises won't change that. Meanwhile, supply is ramping up, but swap spreads seem well-behaved so far

Euro rates content with an ECB on hold

In the eurozone we'll be watching the CPI figures for December, but we doubt the outcome can really sway rates in a different direction. On Tuesday, German and French CPI numbers surprised to the downside, increasing the chance of a lower-than-expected reading for the aggregate number. The money market curve remains almost entirely flat, however, with practically no further hikes or cuts priced in for 2026. We don't see how a single reading would change this view. Only when we face a series of downside surprises would we start challenging current market positioning.

Any downside inflation surprises should also be viewed against a backdrop of the economic outlook. Whilst Tuesday's PMI revisions were a tad disappointing, the overall picture is still one of improving growth. With the core CPI figure still sticky at 2.4%, rates should not be carried away by some downside surprises. If anything, plenty of government spending in the pipeline can lead to renewed price pressures, helping to offset disinflationary factors.

Supply dynamics are picking up with markets showing resilience

Supply dynamics are picking up. In European government bond markets, Slovenia kicked off the activities with a €1.75bn 10y deal on Monday. On Tuesday, Belgium mandated banks for a new 10y benchmark. Typically, these deals had a size of €7bn over the past years.

In the broader EUR Sovereign, Supranational, and Agency (SSA) sector, EIB and KFW have announced deals. The EIB will be in the market for a new 10y Euro Area Reference Note while KFW will sell new 3y and 10y bonds. The German state Lower Saxony was the first SSA issuer to come to the €-market. SSA spreads have been trading firm into the upcoming wave of supply, even tightening versus swaps by a few basis points since the start of the year.

As a point of reference for the upcoming supply volume, EUR issuance from SSAs (tracked by Bond Radar) totalled €83bn in January 2025. Euro area government bond syndicated deals back then added another €71bn on top of the regular auction supply of €110bn.

Wednesday's events and market view

The preliminary country CPIs have already given markets a sense of what to expect from the eurozone release on Wednesday. The main data drivers of the day will thus come from the US, where we will get, among others, the ADP employment change for December with a consensus of 50k versus last November’s -32k. The JOLTS data on jobs openings will also be closely watched to gauge the state of the labour market. The ISM services index is expected to come in somewhat softer, but still in expansionary territory at 52.2. Factory orders and mortgage applications round off the day’s releases.

In primary markets, EUR markets are gearing up for a syndicated deal from Belgium, selling a new 10y benchmark, while Germany is in the market with a scheduled auction of a new 10y Bund (€6bn). The above-mentioned EIB and KFW deals are also likely to be Wednesday’s business. Elsewhere, the UK auctions £4.25bn in 5y gilts.

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