

## Rates Spark: Still in the driving seat

US rates should once again set the tone in global fixed income markets. Powell's hearing will be an opportunity to gauge the aggressiveness of the Fed's tightening cycle, and it could see the curve front-load hikes further.



Federal Reserve  
Chairman Jerome  
Powell

### How far can hawkish expectations go?

We're expecting rates markets to remain in a holding pattern, with 10Y Treasuries below 2% and 10Y Bund below 0%, going into this afternoon's Powell re-nomination hearing. There is no doubt about cross-party support for a second four-year term, but the prospect for abrupt policy tightening is keeping investors up at night. The first task will be for markets to gauge how aggressive the Fed will be in its tightening process. The [opening statement](#) released late yesterday contains no surprise but pointed questions by senators on the Fed's inflation surprise, and reponse, should see Powell under pressure to describe its strategy in more details.

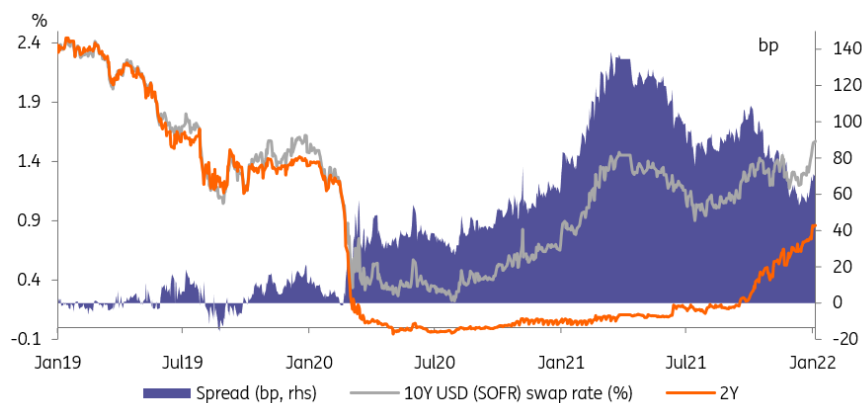
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*The prospect for abrupt policy tightening is keeping investors up at night*

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The swap curve currently implies 150bp of hikes by the end of 2023, almost priced to perfection when compared to the latest Fed's dot plot. The question then is, why all the drama? The answer is that, increasingly, investors are seeing an even greater number of hikes if the recent hawkish turn is any guide. This could go one of two ways. Either more hikes are front-loaded to 2022 – this seems to be the way markets are currently thinking – or the tightening cycle continues after 2023.

## We're expecting the US curve to re-flatten only later this year



Source: Refinitiv, ING

In the first scenario we could soon see the first calls for 50bp hike increments this year by market participants. This would put more pressure on front-end rates and bring a resumption of the USD curve flattening. The more aggressive stance would also present a greater challenge to risk assets valuations, in turn boosting safe haven demand for 10Y Treasuries.

*The more hawkish Powell sounds today, the sooner the flattening will resume*

We're only expecting this flattening to resume later this year, after the 10Y crosses the much-discussed 2% level in yields, but the more hawkish Powell sounds today, the sooner the flattening will resume. The alternative scenario, that of a protracted hiking cycle, seems far from the market's mind. It would be the most orderly option however, the most consistent with a rise in long-end yields, and the one that the Fed has signalled in its December dot plot.

### Today's events and market view

A look at today's economic calendar would convince anyone that most releases are tier-two at best, and thus with little market-moving potential. This being said, the details of the National Federation of Independent Business, and their assessment of pricing power and labour market conditions, always make for interesting reading.

There are a number of ECB speakers on the docket today. The Bundesbank presidency handover ceremony could will see Joachim Nagel's first comments on monetary policy as president, alongside Jens Weidmann and Christine Lagarde.

In the US session, the limelight will largely be on Powell's Senate re-nomination hearing (see above). More than tomorrow's CPI reading, this could set the tone for the rest of the week, and also complicates efforts to sell debt.

On that topic, the US Treasury will kick off this week's supply slate with a 3Y T-note auction. It will follow suit with trickier 10Y and 30Y sales later in the week.

Primary markets will also be active in Europe. Spain has mandated banks for the launch of a new 10Y benchmark, the size of which routinely flirts with €10bn. This will come on top of the Netherlands launching a new 4Y bond, and Austria and Germany selling 10Y/30Y and inflation linked bonds respectively via auction. On the supranational front, the EIB will launch a new 10Y EARN benchmark, which we expect to be €5bn in size.

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