

## Rates Spark: The long-end bias is still up

Market rates are higher as the dust slowly settles in the 24-48 hours after Wednesday's Fed 25bp rate cut, and curves have re-steepened. Not exactly feeling like a bull market for bonds



### Upward pressure on US market rates, while TIC data show ongoing reasonable support for US securities

As we settle in a day post the 25bp rate cut from the Federal Reserve, we find market rates higher and the curve steeper. Certainly Thursday's jobless claims and Philadelphia Fed data (both firm for the economy) pushed in the direction of higher rates, but the tone from the US close in the hours after the Fed decision on Wednesday was also pushing in that direction. It was Asian and European trading that took the US Treasury yield back down from a possible attack on 4.1%. But that attack subsequently happened as the US trading day took control (especially post the data). So far, the 4% level has broadly held for the 10yr yield.

Latest Treasury International Capital (TIC) data show a moderate net inflow to US securities of some \$2bn. The breakout shows selling of \$25bn by China and \$26bn by Japan, which has been thematic for both over previous years. There was also net selling of note out of Brazil, India and Belgium (custodian centre). The biggest net seller was Canada, at \$57bn, reminiscent of the big sell trade done in April that was then reversed in May.

At the other end of the spectrum, the UK was a big buyer, at \$41bn, as were many other European centres, the UAE and the likes of Hong Kong and S Korea. Excluding China and Japan, all other foreigners were net buyers to the tune of \$54bn. In the past 12 months, average foreign buying is running at \$61bn per month versus \$134bn per month by domestics.

Overall, the July number as a whole, while not impressive, continues a theme of reasonable support for US securities. This helps provide underlying support seen for US Treasuries, but the data refer to flows through to end-July and so not timely enough to help explain more recent price action.

## Long end still looks at steepening pressure, but the narrative is getting less straightforward

Both the German Bund and UK gilt 10s30s curve saw individual jolts steeper on the back of the funding calendar update and the Bank of England quantitative tightening announcement, respectively. All in all, not the relief that some may have hoped for the very long end coming out of these events. Governments continue to issue on the long end, whilst the potential impact of a slowdown of QT programmes doesn't seem to change the direction.

Germany skewed the €10.5bn increase to the long end with 33% of the nominal increase in 15y and 30y maturities. Looking at it in terms of risk that the market will have to digest, the skew is at 58% via these longer maturities. The BoE did largely match expectations by announcing a reduction of the gilt portfolio by £70bn over the next 12 months. As was largely anticipated, the active sales via the 20y or longer bucket were pared back, but not suspended altogether as some market participants appear to have hoped.

Having said that, the narrative around the further steepening might be getting less straightforward with an eye to macro dynamics in the US. Closer to home we also have the Dutch pension funds which may still increase hedging going into the transition, together with demand for fixed receivers due to inflation indexations. Meanwhile, steepeners (partly in anticipation of pension fund unwinds in 2026) are a crowded trade, which could amplify swings in the opposite direction.

### Friday's events and market view

No notable events on the data calendar after the UK retail sales in the morning. From the Fed, Daly will be speaking on AI.

Going into the weekend we also have scheduled rating reviews of Italy by Fitch (BBB/Positive), Ireland by S&P (AA/Positive) and Greece by Moody's (Baa3/Stable). France is up for review by DBRS, which has the country on AA(high) with a negative outlook.

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