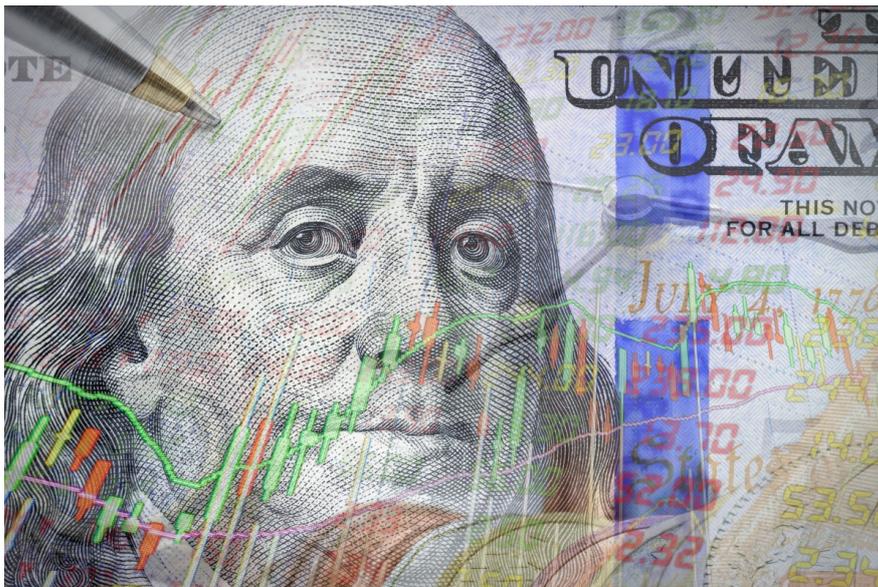


## Rates Spark: The pull of weaker data for yields

It's had been a week of rising yields this week. That was until we saw some of the April activity and prices data out of the US, which showed a marked taming of circumstances. Hence the turn lower in yields. But there is a tax bill being discussed in the US that can easily prompt scrutiny from the Treasury market. Eurozone yields are in a mood to follow for now



### US Treasuries react to some quite mild data, but the tax plan remains an irritant

The break lower in the Treasury 10yr yield (back below 4.5%) makes a degree of sense in light of the PPI (lower than expected) and retail sales (weaker than expected) data. The question is what's next? Is the dip in PPI inflation the beginning of a trend? Probably not, given the tariff effects to come. And retail sales? Less certain, but probably weaker. Industrial production was also on the weak side. Overall these April data are calming, and Treasuries indeed liked these data. Hence the gap back down to the 4.45% area.

But Treasuries must remain concerned about prices ahead. The tariff story has been downsized in

terms of its extremities. But there is still a minimum 10% tariff wall around the US, and while a portion of this will be eaten up through reduced margins, a residual upside is very probable for consumer prices. And there is also the tax cutting bill that's in the early stages of getting "shape shifted" through Congress. The early phase indications are for an overall budgetary effect of just under US\$4tn over 10yrs (simplistically, divide this by 10 to get the 2026 effect). However, the Office for a Responsible Federal Budget pitches it at a tad over US\$5tn "if made permanent".

From an issuance perspective, the extension and modification of the 2017 tax bill, in fact should not have a big effect on issuance volumes, as this is already factored into current issuance circumstances. It's the additional stuff that acts to push up required issuance volumes. And overall, the issue here is little to no realistic ambition to get the fiscal deficit lower, at least based off what we are dealt.

Based off that, we view the yield movements seen through Wednesday as largely a day-trade lower in yield. Beyond that we still face the likelihood for a re-test higher as we progress through the coming weeks (and likely months).

## Eurozone yields in a reactive mood, mostly to external developments

The 10y Bund yield dropped to 2.63% after briefly touching the 2.7% mark. What will also have helped is that primary markets have become considerably calmer after a flurry of government and SSA supply through Wednesday. Risk sentiment judged by risk assets but also spreads in the eurozone bond space is holding up, so the driver seems to be coming indeed more from abroad. The headlines surrounding trade negotiations with the European Union remain too vague to move the needle and fundamentally not that much has changed for the EU with little data to work off this week.

That will change to some degree with the release of the eurozone PMIs and the German Ifo for April next week. The consensus is looking for a slight improvement, which on the face of it would mean persistent bearish headwinds. Overall, though it should not change the market's (and our) assessment that the European Central Bank will still have enough room to cut rates up to two more times this year. While uncertainty near term still remains high it is safe to say that trade barriers overall will end up higher than before 'Liberation Day'.

### Friday's data and market view

Again, data will come mainly out of the US with the main focus on the University of Michigan consumer confidence index. Sentiment is anticipated to improve somewhat, but the inflation survey is set to remain elevated. Other data include import/export prices as well as housing starts. TIC flows data for March might get more scrutiny.

ECB chief Economist Lane, deputy governors Lombardelli of the Bank of England and Seim of the Riksbank participate in a panel on "central bank communications and uncertainty" at a research conference organised by the Fed.

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