

## Rates Spark: The seven year itch

The weak US 7yr auction is a timely reminder that the backdrop points to higher rates, and the relief we see currently should prove temporary. This general area of the curve is rich in any case, which may also have proven a deterrent to demand at the auction. The ECB will try to decouple, but also here it is likely to be more about managing the speed of the increase



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### It is but a detour, the general direction of travel is still higher

As a week of rallying bond markets draws to a close the question is whether the reflation story been put to rest. We don't think so and rather think a mix of Covid gloom and technical factors towards the quarter end has been behind the lower yields of late. We think that yesterday's weak 7yr UST auction came as a timely reminder that the general backdrop still favours higher yields.

Auction events are never a definitive summary of appetite, as many other factors are at play, but this one is pushing in the direction of favouring a bigger concession next time. This is also quite a rich area on the curve, which may have been a factor behind the buyers strike at pre-auction market levels. The fact that the 5-7yr area remains rich is one of the anomalous factors out there that should adjust in due course. Typically this area would be much cheaper into a rising rates environment.

The week ahead will be shortened by the Easter holiday, but nonetheless it will hold some key events. Friday will offer the next update of the official US job market data, where the consensus is looking for a further recovery. President Biden will outline his US\$3tn plus infrastructure plan next Wednesday. Whether it will hit the road in the form outlined is another important question, but the underlying direction of the travel remains clear.

We still think that the 10Y UST will reach 2% later this year.

## The ECB leans against the trend as the eurozone lags behind

This side of the Atlantic the outlook is becoming more uncertain and clouded. The UK is looking to start easing curbs as soon as next Monday, but in the Eurozone that appears to be a distant hope.

The ECB's Schnabel made it clear yesterday that he will use the capacity of the pandemic emergency purchase programme “resolutely and efficiently” to maintain favourable financing conditions in the eurozone. With a view to the purchase volumes we can expect to see, “efficient” might mean less is needed during episodes when the global drivers work in favour of the ECB's aims. Something to keep in mind ahead of next week's data perhaps. But then there might still be a need to keep bond spreads in check? In the end the result will count and not the week-to-week volumes.

A slow vaccine rollout, high infection rates, longer lockdowns – it all serves to underscore that the eurozone is lagging behind. It also implies more fiscal spending as support measures are extended. On Tuesday, Germany will present the second quarter update for its debt issuance plans. This comes on the heels of a recent €60bn budget amendment. For now we think any changes to issuance plans should happen within the shorter dated bills issuance, which offer more flexibility and had been pared back from last year.

### Today's events and market view

The US releases personal income and spending figures, which are likely to see a reversal after the boost from the \$600 stimulus cheques in the January data. As our economists point out this weakness won't last long given the latest \$1,400 stimulus payment has started to hit bank accounts with March's figures set to be even stronger than January for both income and spending.

In Europe the focus is on the German Ifo business index. The PMIs already showed a strong upside surprise, but markets seem more focused on the effects of the latest rise in infections and resulting lockdown extensions.

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