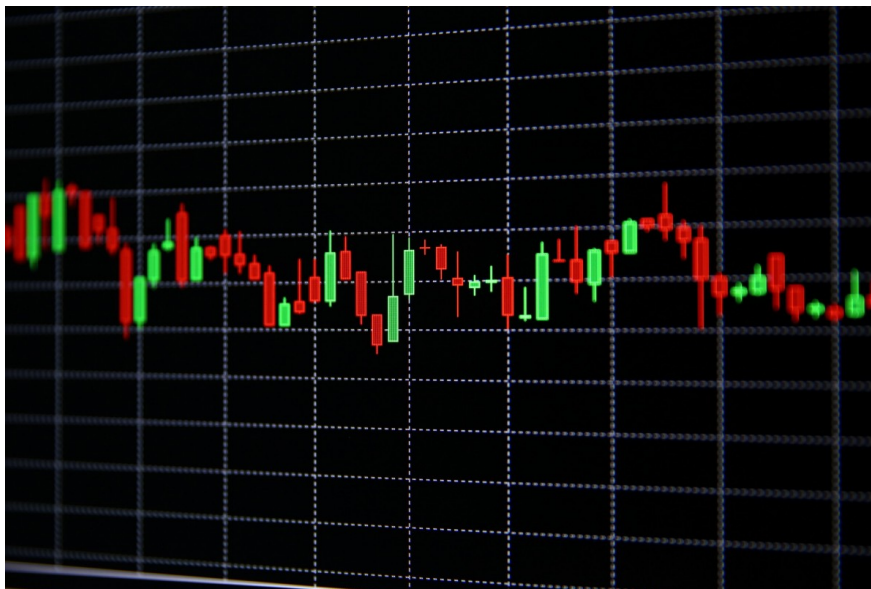


## Rates Spark: The steepening has taken a break

Geopolitical headlines have become a dominating driver over the past few days as tensions have risen in Eastern Europe, also helping to bring the steepening trend to a halt this month. But the eurozone flash PMIs will take centre stage today and might already bring the front end back into play for our curve steepening prospects



The steepening of the 5s10s of the EUR swap curve has stopped given the uncertainties on the horizon

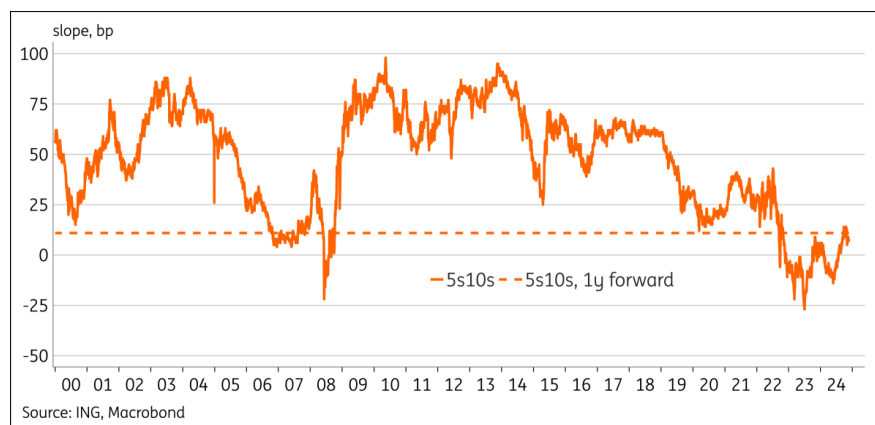
### The steepening of the 5s10s is taking a break

The steepening of the EUR swap curve has seemingly ground to a halt, with the 5s10s trading in the range of 5-10bp for much of this month. In the meantime, markets priced in more rate cuts on the front end of the curve, suggesting the path towards policy normalisation accelerated. From a more structural view, the 5s10s should see more steepening as policy is normalised, but other market forces at play prevent the steepening move from continuing in the near term.

For one, the slight flattening of the 5s10s in the US after Donald Trump's election victory weighed against any steepening tendency in the eurozone. In the US, the narrative regarding rate cuts moved in the opposite direction, and the path towards normalisation is being pushed back. Secondly, risk sentiment has turned more fragile in the eurozone, testing the long-term economic outlook, helping down the curve from the back end too.

Going forward we still expect both EUR and USD curves to maintain their steepening trajectory going into 2025. But the continuation may need some time as markets await the impact from Trump's presidency starting in January. From a historical perspective, the room for the 5s10s to steepen is significant, and the current one-year forwards suggest that little of that potential is priced in. But for now, the 5s10s may remain more range-bound.

## Forwards price in little of the EUR swap steepening potential



### Today's events and market views

Geopolitical headlines have become a dominating driver over the past few days as tensions have risen in Eastern Europe. But the eurozone flash PMIs will take centre stage today and might already bring the front end back into play for our curve steepening prospects. The consensus sits at unchanged readings from last month – a contractionary level of 46 for the manufacturing index and a 51.6 reading for the services index. As our economists noted, a weak batch in October was ultimately what locked in that 25bp rate cut from the European Central Bank last month. Today's numbers will decide whether the ECB still has room for a larger 50bp cut in December. Currently, the market has pared chances for this to happen back to below 20%.

We will also get the PMIs for the US, though they usually less relevant there than their ISM counterpart – unless there are big surprises. Markets look for a slight improvement on the manufacturing side. We will also get the final University of Michigan consumer sentiment reading for November.

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