Rates Spark: Treasurers look at issuance strategies to ease pressure

A potential reduction in Japan's government bond supply is pushing down longer-dated global yields. But fiscal concerns continue to linger, thereby limiting the downside potential of UK gilt yields. Tariffs continue to drive the short end of the curve and relatively good consumer confidence data from the US shows the Fed is not yet in a position to cut

Treasurers are looking at issuance strategies to ease upward pressure on yields

The global fiscal/supply-themed curve steepening has noticeably turned on the back of long-end Japanese government bonds (JGBs) rallying over the past session. A survey sent out by Japan's Ministry of Finance suggested a potential reduction in issuance. Tuesday's rally in 30y US and EUR rates did not go as far as the 19bp drop in Japanese Government Bonds, but declines of around 5bp brought the 30y US Treasury yield back below 5% and the 30y Bund even below the starting levels of the previous week. The demand for the 40y JGB auction earlier today was weak, however, suggesting still fragile sentiment.

The gains for longer-dated UK gilts were relatively muted, highlighting investors' concerns about the country's fiscal outlook. The Debt Management Office had already flagged a shift away from longer-dated issuance because of weaker demand from investors. But this doesn't change the fact that markets are concerned about the government's limited fiscal headroom. With a spending review scheduled on 11 June, the potential for 10y and 30y gilt yields to ease lower may be limited.

Lingering tariff concerns bring uncertainty to central bank moves

Adding to this is the recent tariff noise. After triggering a risk-off reaction last Friday, followed by back-pedalling over the weekend, the US side looks like it is trying to instil more optimism around the possibility of forthcoming deals. The previous truce with China, for instance, helped the Conference Board's consumer sentiment on Tuesday rebound more than markets had anticipated. But to begin with, the data has been showing a discrepancy between the still solid current conditions and the more pessimistic outlook.

Arguably, it has been the current consumer spending that is keeping the economy afloat and, by extension, making the Fed more wary about near-term policy decisions. Markets will continue to be worried about the potential price impact from tariffs, and more benign PCE data later this week is unlikely to dispel those concerns. The market is eyeing better chances for the Fed to cut rates from September onwards. Paired with the ongoing unease about the US fiscal trajectory, we do not see much room for US yields to decline much further from here.

But for the EU, the current situation still means a 50% tariff is looming, raising the stakes in the ongoing negotiations. This is why this side of the Atlantic market is still eyeing a cut by the ECB next month to 2% alongside the possibility that the central bank may even have to cut beyond 1.75% this year.

Wednesday's events and market view

Germany will publish its unemployment rate, but the consensus doesn't expect this to move from the current 6.3%. From the eurozone, we have the ECB's consumer inflation expectation numbers, which markets see easing slightly despite tariff concerns. The FOMC notes from the Fed meeting on 7 May could be of interest. But given that markets now only price in a full cut by October, the minutes are unlikely to change the outlook.

In terms of issuance, we have a syndicated deal from Spain with an estimated €10bn of 10y SPGBs. Germany has slated 13y and 15y Bund taps totalling €2bn. From the UK, we have an 8y green gilt for £2.75bn, and from the US $70bn of new 5y Notes.

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