

Rates Spark: Treasuries out of favour

US Treasuries remain under pressure. It's not a "Sell America" thing, as no coincident dollar weakness. It's more based on the latest assessment of fundamentals. If this signals a broader trend of diversifying away from the US, even markets like Italy stand to benefit. The 10y Italy/Bund spread just marked its tightest levels since 2021



US 10yr breaks above 4.5% again

Since the weekend agreement with China, we've turned bearish on Treasuries, as the recession risk has been downsized, and there's been a risk-on tone in the risk asset space. Also, we note that mutual funds had been setting short duration strategies over previous weeks, which had not shown up in prior yield movements. So an up-move in yields was overdue. The fiscal story is something that continues to hang over the market, and the tax cutting ambitions are, if followed through on, seen as a Treasury market negative. That's been an ongoing thing churning in the background. Not new. But absolutely lined up as a negative. It's been quite a move. In the past five trading days the 10yr yield is up some 25bp. No "Sell America" thing going on here. More a fair reflection of fundamentals.

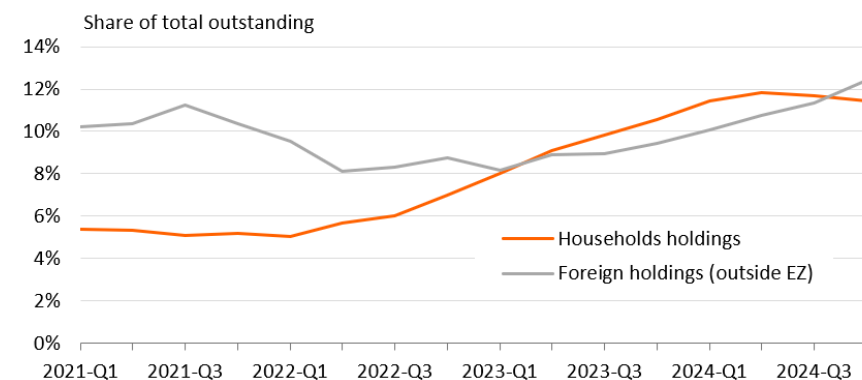
Bunds are not the only one to profit from growing foreign interest

The 10y spread of Italian government bonds over German Bunds hit 100bp on Wednesday, its tightest levels since 2021. The de-escalation on the trade front has helped risk sentiment with Italy regarded as one of the more exposed nations within Europe. But we have clearly already surpassed levels seen even before 'Liberation Day'.

It could point to a more broader trend in the wake of the US induced turmoil - that of greater diversification away from US exposure. [German Bunds have been a clear beneficiary](#), but even Italian bonds appear to benefit. Italian treasury officials have recently remarked to MNI that they had seen better-than-expected demand from foreign investors for their bond sales this year. The Bank of Italy's portfolio flow data for the first months of the year show higher inflows from foreigners into Italian government debt, but data does not yet cover the recent episode of market turmoil caused by 'Liberation day'.

In recent years the Italian treasury's strategy to stabilise its funding position has also been an increased reliance on the domestic retail investor. The share of debt instruments tailored to this end tops 6% and thus surpasses Italy's financing via treasury bills. The next retail BTP-Italia bond is planned for later this month. With foreigners seemingly staging a larger-than-anticipated comeback into Italian debt, Italy might rethink its funding mix again, which officials suggested could be a consideration for next year. Overall though, it points to spreads remaining supported even at their currently tight levels.

The traditionally more fickle foreign investor is returning to Italian government debt



Source: ING, ECB

Thursday's events and market view

It is a busy day in US data. Main highlight will be the retail sales data where after a strong March the consensus is looking for the data to reflect more of the consumer worries around inflation and the jobs market. The weekly jobless claims data itself is not expected to change much this time. In other data the PPI will be watched after the cooler-than-expected CPI while industrial production is expected to show a marginal increase after contracting in March.

The Fed's Powell will speak on the monetary policy review while Barr will give opening remarks at a small business symposium.

The eurozone will also release industrial production data alongside the second reading of first quarter GDP growth. From the ECB Cipollone, de Guindos and Villeroy will have public appearances.

After busy days in primary markets the only sovereign supply this day comes from the UK with a 3y gilt auction for £2bn.

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