

# Rates Spark: Treasuries steal a march on Bunds

Tariff-related headlines are taking over, but offer little clarity. Still US risk sentiment reacted positively and lifted UST yields. The opposite happened in Europe. Risk assets lagged and the impact of the fiscal changes is fading from long-end yields, as their economic effects are too far out. Dovish ECB tones still helped steepen the curve



## 10yr Treasury yield to range trade between 4.25% and 4.35% this week

Material moves in Treasuries on Monday. Clear moves higher in yield. The survey evidence released earlier in the day was a positive, with the services side of the economy in particular showing resilience. But the bigger impulse comes from the lull that this week is ahead of what the Trump administration mischievously calls “liberation day” on 2 April (so mid next week).

Volatility has been shifting lower in any case, and we’ve started the week with a decent dose of risk-on behavior. There was some talk that this reflects a taming of the reciprocal tariff plans. But we doubt this is the dominant driver, as we still don’t know what will happen next week. Rather, this week not a lot is expected to happen, apart from a reminder from Friday’s PCE report that there is a decent whiff of sticky inflation still in the air.

Tuesday's Consumer Confidence Board consensus estimate of 94 (from 98.3) shows the market is primed for weaker evidence on the economy, which at the same time leaves room for surprises to be on the upside (even on a weak number in absolute terms, say 96).

There will likely be room this week for a trading range between 4.25% and 4.35% on the 10yr. Any attempt to make a material break above this would be constrained by worries about what 2 April brings. And to the downside, we continue to see a hard floor at 4% that can only be broken on materially weak data. The area of 4.25% is a comfortable distance above that.

## Tariff headlines with divergent impact on US and EUR rates

In Europe the near-term tariff concerns continue to outweigh, holding back domestic risk assets. While eurozone PMIs improved, it was by less than markets had hoped for. Tellingly, 10y Bund yields did not manage to rise above their opening levels all the while their US counterpart rose 5bp.

Overall though, the curve maintained and even slightly extended its steepening. More European Central Bank doves have been coming out in favour of cutting rates. Last week, Greece's Stournaras was surprisingly blunt about the financial tightening delivered by the rise in long-end yields strengthening the case for cutting again in April, though he still saw an overall target of 2% for the depo rate. On Monday, Italy's Cipollone made a similar argument citing the rise in real rates, but adding also the strengthened exchange rate and lower energy prices next to the looming trade tensions.

But even in Germany itself where the fiscal spending splurge was ratified last week, the near term take of businesses on the financial package appeared more mixed. The German manufacturing PMI index did increase more than expected to 48.3, but it remains below the 50 threshold that would signal expansion. Services meanwhile even fell to 50.2, holding just barely above the threshold.

There are also good reasons for markets to refocus on the more near-term issues. Bunds managed to gradually regain further ground versus swaps. After all, Germany just confirmed its issuance plans for the second quarter on Monday, i.e. any supply impact from the fiscal plans will materialise in the third quarter at the earliest and even then, likely only more gradually.

A risk-off reaction to the coming tariff announcements could help Bunds to perform further versus swaps. It might even go as far as to help a reflattening of curves. Over the longer run, we still think that steeper curves with long-end yields moving towards a 3% handle are more likely.

## Tuesday's events and market view

Sensitivity to tariff headlines increases as US "liberation day" draws closer. In terms of data Germany's Ifo business climate will be followed closely for the impact of the fiscal changes. For a change there could also be some more hawkish tones from the ECB with Holzmann and Nagel scheduled to speak. Other ECB speakers are Kazimir, Muller and Vujcic.

In the US the main focus is the Conference Board's consumer confidence index, next to a slate of housing market related data. Fed speakers for Tuesday are Kugler and Williams.

In primary markets France surprised investors with the announcement of a syndicated linker tap, which should be Tuesday's business. The Netherlands will auction up to €2bn in its 10y DSL. Germany auctions €4.5bn in 5y bonds. In the UK a 19y gilt will be tapped for £2bn while the US sells US\$69bn in new 2y notes.

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