

Rates Spark: Trump assassination attempt contributes to steeper curves

The UST curve steepened on the back of Trump's assassination attempt, which was deemed likely to increase his chances of a win. The rate-cutting narrative for the European Central Bank has been building less than for the Fed, leading to the tightest 2Y USD-EUR spread since January



Donald Trump's first appearance since his assassination attempt last week

Trump another cause for steeper curves

Markets see an increased chance of a Trump presidency after last weekend's assassination attempt. Again, the move was most pronounced on the back end of the UST curve, whereby the 30Y point led the increase by around 5bp. The front end came down a bit, twisting the curve, and now prices in around 60bp of Federal Reserve cuts for this year.

The steepening of the UST curve should also be seen in the wider context of incoming Fed cuts. With inflation numbers lining up for a September cut, the front end will find itself coming down. Past cutting cycles also show that the term risk premium should start building again, which is still considered close to zero. Add concerns about the US deficit and all the ingredients for steeper curves come together.

Direction for EUR rates less obvious

The spillovers from a Trump presidency to EUR rates are more muddled. On the one hand, the rise in UST yields tends to have an upward effect elsewhere. On the other hand, a protectionist agenda could depress the eurozone growth outlook. Having said that, EUR rates are still more driven by short-term Fed policy than the political outlook.

Eurozone rates have been helped down by the recent improvement of US inflation data and the rebuilding of the Fed cutting narrative. At the same time, the backdrop for ECB cuts is not as clear-cut. Earlier this month, Chief Economist Philip Lane underlined sticky services inflation as a concern and the ECB has been very careful not to commit to a future date. This all means that EUR rates are lagging behind the US, and the 2Y USD-EUR OIS spread is now at its tightest level since January.

The uncertainty from political events adds to the difficulty in giving direction to EUR rate markets. In France, the presidency of the National Assembly is up for decision this Thursday, which will be of political significance about a possible prime minister and government coalition. Internal disagreements within the left-wing coalition National Front Populaire about the presidency highlight the almost impossible puzzle that France needs to solve.

Today's events and market views

Today's ECB bank lending survey will shed some light on how rate hikes are still impacting the economy. Absent of bigger deviations from recent trends that point to a modest recovery, this release is unlikely to move the needle on coming ECB rate cuts. Germany will release the ZEW survey which is anticipated to weaken.

The main release in the US is retail sales figures, which should provide more insight into the consumers' ability to bolster growth. The headline figure is expected to contract, while the control group is expected to eke out 0.2% month-on-month growth. Import prices are seen falling 0.2% month-on-month; welcome news as some import price components enter the core PCE measure. Federal Reserve Governor Adriana Kugler will speak later tonight. Monday's appearance by Fed Chair Jerome Powell yielded no new insights for markets.

In primary markets, Germany will sell a new 5Y bond for €4bn while the UK sells £2.25bn in 20Y gilts.

Authors

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.