

Rates Spark: Upbeat sentiment helps yields higher

Positive risk sentiment is helping yields up and was reflected in solid demand for Greece's 30y bond sale. Euro rates will now focus on this week's US PCE reading as the impact is likely to spill over into the market pricing for 2024 European Central Bank cuts



Markets are happy to take on risk

Risk appetite in the eurozone is healthy and helping yields up from the back end. Monday's eurozone PMI numbers impressed markets and today the German Ifo survey was also slightly better than expected. Germany remains a drag on the overall eurozone growth outlook, but most indicators seem to point towards a careful recovery. And with escalation fears fading in the Middle East, markets have their reasons to take on risk. The upward direction in rates was in line with the pushback from Bundesbank President Nagel, who emphasised that a June cut would not necessarily be the start of a series of cuts.

The upbeat risk sentiment was also reflected in the robust demand for Greece's 30-year bond sale on Tuesday. The syndication benefitted from an S&P outlook upgrade from stable to positive just last week, on the back of tight fiscal policy and a positive growth outlook. The interest in the sale is especially clear when comparing the total orders of €33bn to just the €3bn size of the offering. At a

spread versus Bunds of 127bp, the pricing is now well below the high in 2022 of 313bp.

Euro rates will probably take a passenger seat in the rest of the week as the US PCE reading will decide the direction for USTs. Market pricing still indicates close to three ECB cuts for 2024 versus just two cuts in the US. The PCE remaining elevated could lead markets to reconsider the spillovers from a scenario where the Fed holds longer/cuts less. The ECB stresses their independence from the Fed, but markets will still correlate the number of cuts for 2024 with the Fed's path.

Thursday's events and market view

The key release is the advanced release of US 1Q US GDP growth, which is not about providing further evidence of US economic resilience. We look for a 2.6% quarter-on-quarter reading, slightly above the consensus of 2.5%. But markets will also use data for the quarter to back out a core PCE reading for March. The consensus for Friday's release still stands at 0.3% month-on-month – still too hot for comfort and probably enough to keep market rates elevated. A lower figure would be the actual surprise and more likely to turn the bearish market sentiment.

In other data we will also get the initial jobless claims with the consensus survey at 215k vs last week's 212k. A bigger surprise to the upside could be market moving, but sentiment should be driven by the earlier GDP release. There is not much data of note from the eurozone, but we have a few appearances by ECB officials like Schnabel, Vujcic and President Lagarde.

In primary markets the US Treasury sells US\$40bn in new 7Y notes.

Author

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@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 www.ing.com.