

## Rates Spark: US CPI unlikely to please markets

The spotlight is squarely on the US CPI data. Some observers see 0.2% as a possibility, but the consensus is for a 0.3% month-on-month core figure. That suggests there could still be a bearish impact reaction if consensus is confirmed. But more lasting upward pressure would come from the notion the Fed is running out of runway for summer cuts



### US CPI today, ECB meeting tomorrow

Markets are bracing for the US core CPI figure later today. Consensus believes it will be 0.3% month-on-month. That number would still point at inflation running hot and is not low enough for the Fed to start cutting rates and should, as current market dynamics stand, keep yields further out the curve elevated. When looking at the distribution of the consensus numbers, the risk bias seems to tilt slightly towards a lower core CPI of 0.2% month-on-month. While 10Y UST yields already slipped below 4.4% again on Tuesday, even a 0.2% figure still translates to an annualised inflation rate above the Fed's target.

Today's FOMC minutes of the March meeting may shed some light onto the FOMC's thinking surrounding the latest higher inflation and ongoing economic resilience. Recall that the dots showed an overall shift to fewer cuts. While the median for 2024 still held at three cuts, one cut was taken out of 2025 and the long run estimate also nudged slightly higher.

Euro rates this week are focusing on the ECB meeting on Thursday, which should dampen any spillover effects from the US CPI numbers, at least in the short end of the curve. We do not foresee a scenario in which the ECB decides to cut tomorrow, but the press conference will be scrutinised on the path forward. A June cut seems a certainty, however the path thereafter is not. Markets price in around 86bp of cuts this year, which indicates both three and four cuts are on the cards. Our economists pencil in three cuts in their baseline scenario. The notion of a Fed materially delaying its easing cycle could also tip the scales also towards pricing fewer ECB cuts. In short, even if providing an anchor to Eur rates more generally, the room for the front end to move much lower also looks limited.

Yesterday's [ECB bank lending survey](#) supported the idea of a June cut, with the change in the demand for loans still in negative territory. With ECB speakers getting more and more vocal about growth concerns, these survey results are a good reflection of the restrictiveness of the current policy stance. The biggest impact from the rate hikes seems behind us though and thus an easing of rates in June should help stimulate eurozone growth in the second half of the year.

## Today's events and market views

Besides CPI numbers, we will also have real earnings, mortgage applications and wholesale numbers from the US. The FOMC will publish its March meeting notes, which should get some scrutiny from investors as the meeting came with stronger growth and inflation projections as well as higher median dots for 2025 and beyond. Markets will also be looking for more detail on Powell's remarks that the pace of quantitative tightening could be slowed "fairly soon." In the eurozone we only have Italian retail sales as a notable data release.

The US is set to auction \$39bn of 10y Notes, which will be watched as gauge for duration appetite. Furthermore, Germany will auction €2.5bn in a new 15y Bund and Portugal a total of €1.5bn split across 10y, 14y and 21y bonds. The UK sells £4bn of 3y Gilts.

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