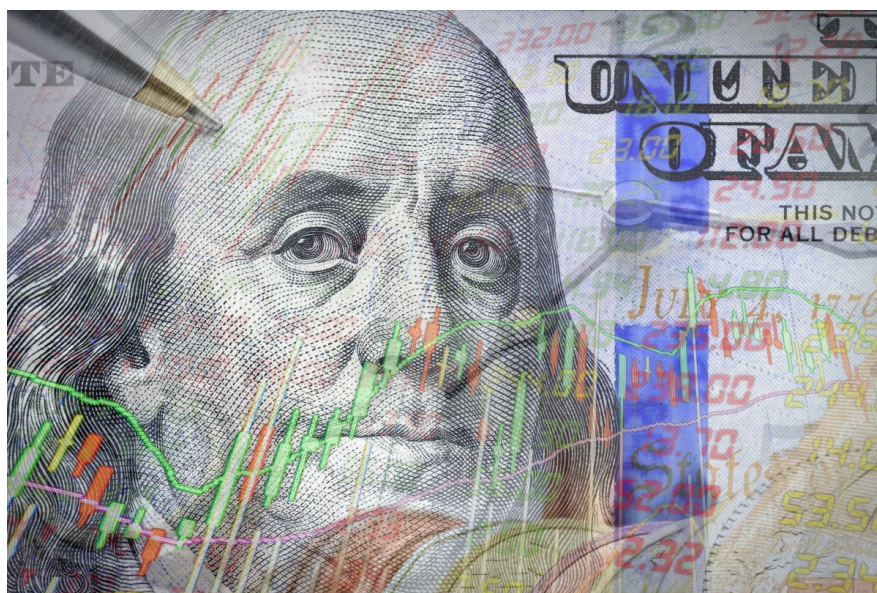


Rates Spark: US yields not for turning, so spreads widen

Our impression from here is the 10yr Treasury yield will have a tendency to head for the 4.5% area, potentially with a view to thinking about 4.75%. In the Netherlands, Dutch pension funds will no longer be required to organise a vote to transition in the latest proposal – important; we explore further...



US Treasury yields in a mood to re-test higher in the period ahead

The US 30yr auction was strong. It came some 2.5bp through (effectively rich to secondary). The indirect bid was strong (mostly foreign). The direct bid (more domestic) too. Dealer need to support the issue in consequence was low, so all good on the auction metrics, and this is a vote of positivity on Treasuries. It's likely that a perception of value helped, as the 30yr yield rose in the hours into the auction. Still, a strong 30yr auction following a strong 10yr auction is quite a good look, especially in the wake of a really poor 3yr auction where central banks were expected to show up and lap up paper.

Despite this we're inclined to view higher yields as an ongoing risk ahead. We've had too much

risk-off in recent days that has not correlated with lower yields. So there is still an implicit negative tint attached to Treasuries. That's not shaken yet, and the 10yr swap spread is re-widening too. It had hit 60bp, before collapsing back down towards 50bp yesterday on the "pause" news. But has since edged back up towards 55bp.

Directionally, there seems to be no mood to materially test lower in yield right now, despite the open door being presented by the risk-off backdrop. Our impression from here is the 10yr Treasury yield will have a tendency to head for the 4.5% area, potentially with a view to thinking about 4.75%.

The March US budget numbers are not awful, but still not great. The running deficit has widened to US\$1.3tn. That compares with US\$1.1tn on an adjusted basis for the same period of fiscal year 2024 (October to March). The detail showed a moderate rise in tariff revenue (only small though). Cumulative revenues are running at 3.3% above 2024, while spending is running at 9.7% above. The good news is the monthly deficit at US\$160bn is lower than the US\$237bn seen for the same month last year. Spending was lower by 7.1% compared with March last year. That helped to narrow the running deficit to 15% above 2024. Overall, some improvement in March, but the cumulative numbers remain troubling.

EUR markets remain cautious after the US U-turn

It is sinking in that the US will still impose stiff tariffs despite Trump's announcement, and while the 90-day delay gives room for negotiations and deals, it will remain a greater time of uncertainty which by itself can have a chilling effect on economic activity. So it was no surprise that the knee-jerk increase in EUR rates as a reaction to Trump's u-turn on tariffs faded relatively quickly.

The European Central Bank pricing is now somewhat less extreme – in that there is no longer a probability discounted in forwards of a 50bp April cut – but overall the market is still firmly looking for three cuts from the ECB this year. 2y swap rates ended only some 2bp higher. There was, however, a larger move higher in front-end Schatz yields which is a reversal of the prior safe-haven demand as the most severe market turmoil in risk assets now has an end. The Schatz yield is still trading some 19bp below swaps compared to around 15bp just before 'Liberation Day' and thus still reflects remaining market caution.

Longer rates dropped, mirroring to some degree the much larger bull flattening moves seen in US SOFR and Sterling SONIA swap curves – 30y SONIA OIS rates for instance dropped by 16bp, mostly reversing the prior day's 20bp surge. But staying in EUR space, Bund yields ended the day little changed versus Wednesday, i.e. before Trump's announcement, though this implies Bund yields trading back above swaps. At the same time we are not back to the 5bp to 10bp above swaps area yet, also here reflecting caution. This is also confirmed by EGB spreads over Bunds still noticeably above pre-Liberation Day levels.

Dutch pension funds no longer needing vote in adjusted legal proposal

Whilst Dutch pension funds [feel the pain](#) from lower equity prices, the coalition party NSC is still trying to [change the rules](#) of the current reforms. In the latest proposal, each pension fund would no longer be required to obtain a vote of approval before transitioning from a defined benefits system to a defined contributions system. Instead, pension funds would have to offer the

participants the possibility to opt-out from the transition of his or her assets to the new system.

This change to the amendment addresses some of the issues identified by the stakeholders in earlier consultation phases, but will likely still face strong opposition. The risk sharing characteristic of the Dutch pension fund system cannot be guaranteed if each participant gets a choice about which model to follow. Having individuals choose whether to transition their assets could lead to a self-selection bias, which would have negative outcomes to certain groups (e.g. younger participants).

Having said that, the tail risk of significant amounts of assets remaining under the old system seems to be mitigated, and thus the [potential impact on swap markets](#) should be limited. Even if the amendment makes it through parliament and the senate, we think only a small number of participants will likely actively opt-out from the transition. A vote for approval would have been much more risky, as this could have implied an entire fund, e.g. ABP with €500bn+ AUM, would be prevented from transitioning. As such, we think funds will continue to [prepare for the upcoming reforms](#) by adjusting their interest rate hedges.

Thursday's events and market views

From the UK we first have the flash GDP estimate for February, which is expected to show a 0.1% month-on-month growth. The US will publish PPI numbers, but given the limited reaction to the undershooting of CPI data we don't think markets will pay much attention. The Michigan indices may actually get more attention as these have a stronger forward-looking component. We also have the Fed's William speak on the monetary policy outlook.

In terms of supply we have Italy with a 3y, 6y, 7y and 13y BTP auction for a total of €9bn.

Author

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@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 www.ing.com.