Rates Spark: Vote on Dutch pension reforms postponed

The narrative has shifted for US Treasuries - pressure for higher yields to persist. The bearish sentiment in euro rates can also continue for now. An important vote in parliament on the Dutch pension reforms will be postponed. If eventually a majority votes in favour then the unwind of longer-dated swaps and bonds could be pushed back by years

The vote on pension reforms in the Dutch parliament is postponed

US Treasuries under rising yield pressure

Despite the tariff roller-coaster of the past six weeks, we've ultimately landed in a place where the prior macro worries have now been materially lowered. Given that, we latch back on to an elevated inflation / fiscal deficit combination that can worry Treasuries and mute rate-cut expectations. Even on delivery of cuts from the Fed on a theory that policy remains restrictive (3% to 3.25% would be deemed neutral), longer end rates will still have to contend with the logic of having a reasonably upward sloping curve to reflect the aforementioned risk factors.

The 10yr Treasury yield is now 4.45%. We expect it to head for the 4.5% to 4.75% area, with a risk that it could touch 5%. Staying with the more conservative move to 4.5% to 4.75%, that would equate to 10yr SOFR rates heading for the 4.15% area, and probably a tad higher. But unlikely to get above 4.5%, barring the unexpected. A tamer move in these longer term SOFR rates reflects their lower rates volatility, and a lessor exposure to supply pressure that more directly impact Treasuries.

The next big point of reference will be the tax (cutting) bill. If anything like the one proposed by the executive branch is agreed to and passed by Congress, it's tough to see that as being positive for Treasuries. Few tax cuts are self-financing, usually they are just a short-fall in revenue, pushing up the fiscal deficit. Also once the debt ceiling is eventually lifted, the Treasury can then do some proper net issuance, adding to the pressure.

European markets like Trump's twist on tariffs

Euro markets turned quite euphoric on the back of a potential deal between the US and China. The push higher on the short end brings markets back to a European Central Bank landing zone of 1.75%, which we think is fair at the moment. The 10Y Bund yield has broken out of the previous trading range and is testing higher again, now at 2.6%. That level is still far from the 2.9% yield from pre-'Liberation Day'.

Whilst we structurally think we could head back to the yields from March, there is still too much uncertainty outstanding in the near term. Markets would first need to be comforted that the trade turmoil so far did not bring any lasting damage to the economic outlook. As USTs see more upward yield pressure, be it through improved sentiment or fiscal concerns, then euro swap rates will also find themselves drift gradually higher. Overall we therefore take a bearish view on euro rates.

Vote on Dutch pension reforms postponed

The party behind a proposal to change the Dutch pension reform rules (NSC) has requested to postpone the vote to a later date. The proposal would require each pension fund to give participants a choice about transitioning accrued pensions from a Defined Benefits to Defined Contributions system. If the proposal would make it to legislation, the reforms could face an estimated delay of multiple years. That would mean that the widely anticipated unwinding of longer-dated swaps and bonds by the first major pension funds would be pushed from 1 January 2026 to much later.

The fact that NSC does not want to proceed with a vote on Tuesday could mean that achieving a majority was deemed difficult. The proposal faced a lot of opposition and would still need the support from a number of smaller parties to achieve the required 76 seats in parliament. NSC may have decided to return to the drawing board to make adjustments that would find such broader support. Estimating timelines about the next steps is difficult unfortunately. If a new debate is organised to discuss an updated version of the proposal, then the next vote would probably take at least another month.

Tuesday's events and market views

From the UK we have job numbers, but given the measuring issues these can pose challenges in terms of interpretation. Consensus sees the unemployment rate tick higher from 4.4% to 4.5%. From Germany we have the ZEW surveys, which could give a glimpse on the impact from Trump's tariff rhetoric. The highlight, however, will be US CPI numbers.

Consensus sees a 0.3% month-on-month core reading, keeping the year-on-year figure stable at 2.8%. Bailey from the Bank of England and Knot from the European Central Bank will speak in Amsterdam together.

Plenty of supply slated. The EU announced a syndication for an estimated €6-8bn of 20Y bonds. The Netherlands has an auction of a 29Y DSL for €2bn and Italy an auction for 3Y, 7Y and 18Y BTPs for €7.5bn. From Germany we also have a 2Y Schatz totalling €4.5bn. The UK will auction £1bn of 20Y gilt linkers.

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