

## Rates Spark: Whit Monday breather

Technicals and a dearth of events should support EUR bonds, and help yields extend last week's drop. Safe havens should also be in demand, with the gyrations in cryptocurrencies now on everyone's radar. Bond inflows breed stability in the near-term, but volatility further ahead



### Care for a pause? EUR rates helped by technicals this week

EUR rates, and in particular European government bonds, should be underpinned by supportive technicals this week. Namely, supply is lighter than last week, and month-end maturity extension flow should be lending a helping hand. On the other side of the equation however, there is strong momentum in favour of higher rates. Data keeps surprising to the upside, and yields seem to be still in the midst of pricing in a world where central bank support is gradually withdrawn. As a result, the pause in the rise in EUR rates should prove only temporary, and it is too early in our view for bonds to experience a pre-ECB pause that would be caused by short-covering from momentum accounts.

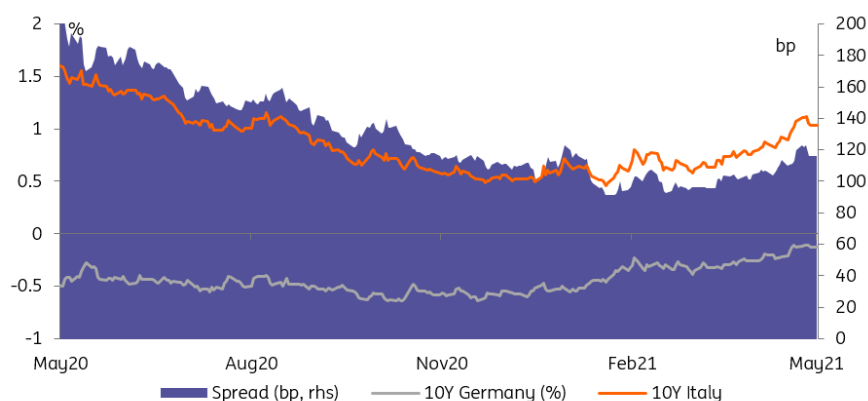
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*The pause in the rise in EUR rates should prove only temporary*

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Given the drama surrounding the speed of PEPP purchases, ECB comments will once again be closely watched. It is probably too early for the central bank to start managing expectations ahead of its June 10th meeting, especially since we expect governing council members to hold contradictory opinions on the matter. There is also the hope that a stabilisation in EUR sovereign bonds markets, the epicentre of tapering angst so far, would imply less of a need for market intervention. In that regard the strong bull-tightening of Italian spreads last week was encouraging, but it faces 5Y/10Y auctions this week, as well as the prospect of a 30Y syndication in the coming weeks.

## Italy snapped its widening record last week but faces more supply

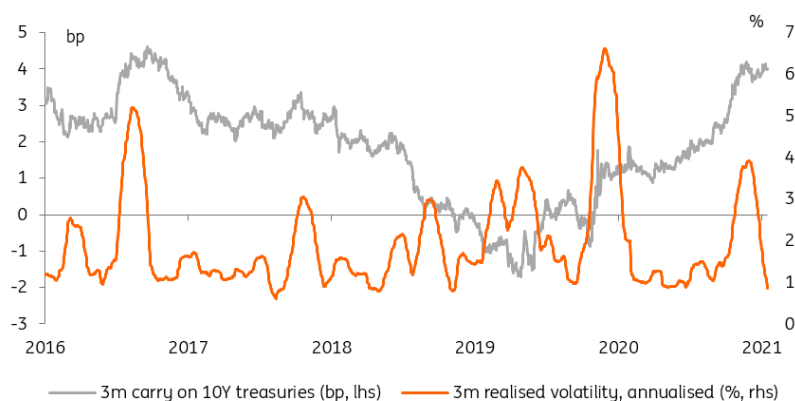


Source: Refinitiv, ING

## USD rates: inflows breed stability...until they don't

Stability on the part of USD rates would come as less of a surprise. After all, they've sailed through almost two months of solid economic data without batting so much as an eyelid. On the contrary, the economic overheating narrative has seen USD markets take inflationary signs as hints that the recovery is running out of road. This, and the Fed's patient mantra, has caused inflows back into dollar-denominated bonds.

## Higher carry and low volatility has drawn investors back into USD bonds



Source: Refinitiv, ING

## Narratives are fickle

Stability breeds demand for carry trades, which in turn helps suppress yields. We see no impediment to this dynamic this week. In fact, the economic calendar is relatively thin and expectations are firmly set on a tapering announcement in the summer at the earliest. In a world where good economic news cause bond buying, it is hard to see what could upset the cart. The problem is, narratives are fickle, and we remain convinced that the US economic is on the verge of an economic boom that will keep inflation well above the Fed's confidence band for the next years if left unchecked. The near-term stability in rates could thus turn into a dash for the exit in the medium term, we see the USD curve flattening 5s30s in most circumstances.

### Today's events and market views

There is a rather thin event calendar today in Europe on account of most of the continent being out of holiday. Still, there will be no let up in Fed speakers with no less than Lael Brainard, Loretta Mester, Esther George, and Raphael Bostic on today's roster. The US Chicago Fed index will also be of interest although US markets have shrugged off most pieces of data. Instead, the lack of clear driver should let rates extend on their decline started late last week. What's more, ongoing concerns about the gyrations in cryptocurrencies add another factor behind the market's cautious tone. This is good for safe havens such as Bund and US Treasuries.

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