

Rates Week Ahead: More volatility, more easing

The US Senate's failure to reach an agreement on a coronavirus rescue package sent markets into a tailspin overnight. But Germany announced more borrowing and we're on high alert for additional US Treasury purchases from the Fed



US Capitol

Source: Shutterstock

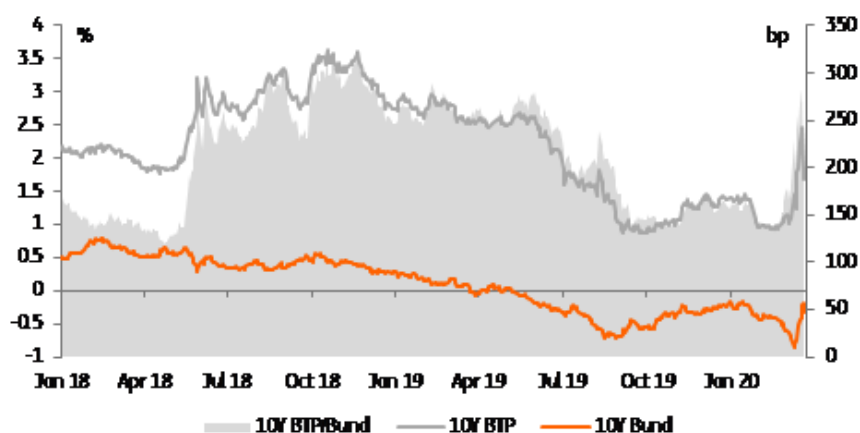
All eyes on central banks

All eyes will be on the policy response from governments and central banks to the coronavirus pandemic this week. The US senate continued to wrangle over the coronavirus rescue bill which includes nearly \$2 trillion of extra spending and gives additional powers to the Federal Reserve to make emergency loans. Failure to reach an agreement sent markets into a tailspin overnight. Germany, on the other hand, unveiled an additional budget plan that will see €156 billion in additional borrowing. Our best guess is that two thirds will be in bills and one third in bonds.

We are on high alert for additional US Treasury purchases from the Fed, as well as measures to

ease pressure on the Commercial Paper (CP) market, a key driver behind higher Libor prints. James Bullard and Neel Kashkari, doves admittedly, highlighted more easing is possible. The European Central Bank will publish the amount of bonds purchased last week. Although there will be no country breakdown, underwhelming purchases would call into question the ECB's willingness to intervene. Note that purchases under the Pandemic Emergency Purchase Programme will not feature yet.

ECB pulled BTPs from the brink, Bund sell off



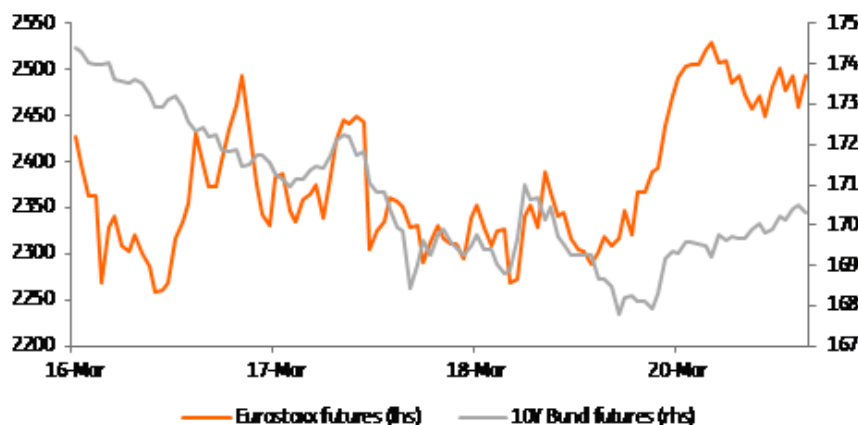
Source: Bloomberg, ING

Deteriorating sentiment to help sovereign bonds

The extension of drastic lockdown measures and warnings that these could last longer than initially expected should be enough to keep a lid on sentiment this week. It is debatable whether the full extent of economic damage is priced in, but markets strike us as being in the initial phase of a longer period of disruption. During this period, our money is on markets directly supported by central banks, and that perform well in times of stress. This means government bonds.

We expected interest rates to continue moving lower as optimism fades. Most quantitative easing programmes are now in full swing and most central banks at the effective lower bound, we expect yield curves to flatten further.

Central banks stopped the bonds sell off, and correlation with stocks



Source: Bloomberg, ING

The week ahead in events

US: Markets will follow the progress of the US fiscal stimulus plan and any new announcements on support for workers and businesses to mitigate the impact of the containment measures. In data, the focus will be on contemporaneous indicators such as small regional surveys or the initial jobless claims on Thursday.

Eurozone: The first March confidence data for the eurozone will be released. PMIs are expected to follow last week's plunge in the German Ifo.

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