

The rates week ahead: the bonds that bind us

Lockdown measures are more likely to be extended than shortened. An agreement on a joint-EU economic response could support sentiment, and prevent EUR rates following their USD peers lower



Source: Shutterstock

Counting cases...

Signs that some countries in Europe are starting to 'flatten the curve' of Covid-19 cases has offered hope to markets. The pieces of the jigsaw are mostly in place, the main unknown is how long restrictive measures will remain in place. Any further news on social distancing and shutdowns being introduced in places that were deemed to have weathered the pandemic (like Singapore or Hong Kong) would douse hopes of an economic rebound in the coming month, even though the number of reported deaths suggests there are signs of stabilisation in the most affected European countries.

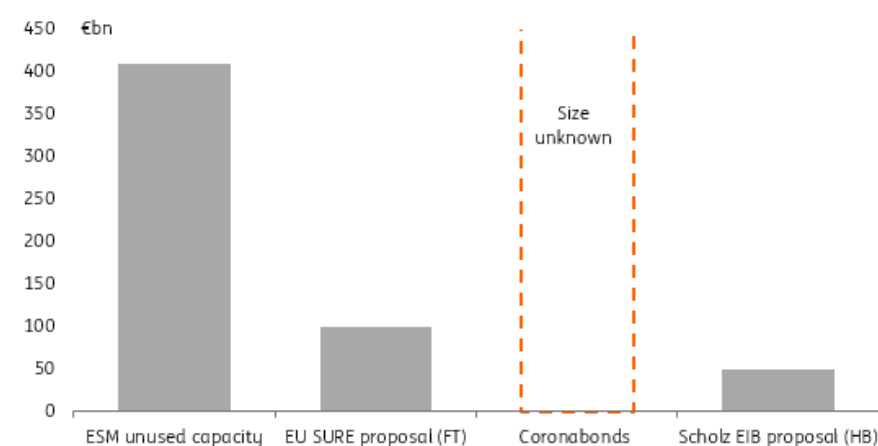
...and hoping for a deal

This week could bring a silver lining in the form of a joint European response to the impending recession and sharp increase in debt piles. We think the measures taken would stop short of joint

liabilities but the prospect of a restart of the European Central Bank's Outright Monetary Transactions should brighten the mood. We expect further underperformance of Bunds relative to US Treasuries as a result, bringing the 10Y spread through 100 basis points.

Current market conditions strike us as being at the initial stage of this economic crisis, so we are not recommending any risk on trades lightly. If we are right in expecting ESM loans and a restart of OMT however, Italian bonds should benefit. German Finance Minister Olaf Scholz reportedly saying over the weekend that up to €38 billion of ESM loans were available to Italy with lighter conditionality, tends to confirm that view.

Size of some of the EU tools under consideration



Source: FT, HB, ING

Events this week: Eurogroup and US jobless claims

US: Initial jobless claims will be the main data release for markets as 75% of the population is under stay-at-home orders. Anticipating another three million reading this week and with containment measures to last into May, our [US economist James Knightley thinks](#) the unemployment rate could reach 15% in coming months.

EZ: The focus remains on the EU's joint response to the crisis with finance ministers meeting on Tuesday. A combination of ESM loans to governments, European Investment Bank guarantees and EU unemployment insurance seems to find common ground, but it would fall short of joint liability Coronabonds.

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