Internal

Tuesday, 18 August 2026

Daily Market Overview

Markets

- ECB chief economist Lane was the first today to voice some views on monetary policy since the July meeting. He steered clear from offering specifics, but said the ECB would do what's needed to tame inflation that's expected to hover around 3% (2.9% currently) for the rest of this year. **Much of course depends on the Middle East situation. Lane, however, is already seeing inflation drivers for next year: food** (amongst others related to the El Nino weather event). His comments didn't really trigger a market reaction with money market bets continuing to be well in the 90%+ for a September hike. We do see some bear flattening in the European curve today but that's in a reaction to yesterday's intraday oil price rise (Brent currently at $91.3, slightly changed) which took place beyond European trading hours. Net daily changes for German bund yields vary between 2.9 for the 30-yr and 5.3 bps at the front. The country by the way tapped 4bn in a 30-yr syndicated sale at the highest rate in 15 years as **risk premia keep pushing up the long end of the curves, in Germany and elsewhere.** Japanese 30-yr and 40-yr yields jumped another 7 and 8.7 bps respectively today and are closing in rapidly on the May record highs. The 10-yr yield already hit a new 3-decade high today. At 2.96% this tenor is now just shy of the 3**% that the Japanese government has assumed in the budget.** US rates add another 1.5-2 bps, undisturbed by a mixed bag of economic data that included sub-par import/export price data, industrial production & a NY service business gauge but a strong weekly ADP employment increase. Housing data was inconclusive (strong permits, weakish housing starts). Yet it's enough for the likes of the 30-yr to be on track for another "highest since" 2007 (on a closing basis). In the UK, that same 30-yr maturity (5.83%) is drawing attention for grinding closer towards the **psychologically important 6% barrier**, a level last seen in 1998. Stock markets are increasingly looking vulnerable in the face of this relentless core bond yield increase, particularly because it's at least as much driven by the real component as by the inflation expectations part. European stocks shed 0.5%, tech on Wall Street underperforms with the Nasdaq losing 1%. Covering the stoic currency markets add little value today.

News & Views

- **In less than 12 hours, the US might impose 50% tariffs against approximately $20bn worth of Canadian goods** (5% of total shipments to the US last year) under Section 338 of the Tariff Act of 1930 ("discriminatory treatment of American products"). The US administration cited several trade practices as irritants, resulting in the tariff deadline. They included provincial bans on US alcohol sales, disputes over dairy quota allocation and broader retaliatory tariff measures against US products. **The US especially wants to see the latter scrapped. Automotive sector tariffs have emerged as another major sticking point**, with Canada pushing to reduce the tariff rate on autos to 10% or expand an exemption for US-made parts in vehicles. Last-minute negotiations are going on today.

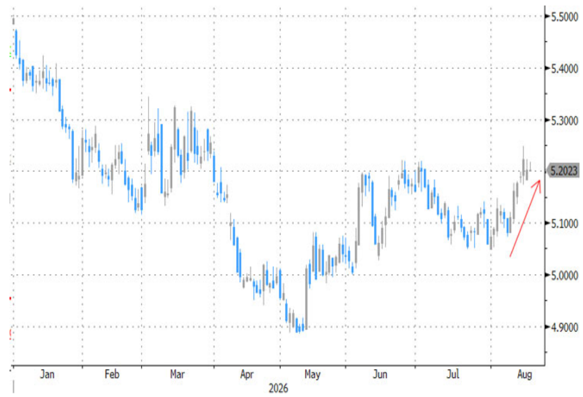
- Bank of Finland governor and ECB governing council member **Olli Rehn argues not to ditch forward guidance as a policy tool in a manner the Fed under Warsh did.** In an op-ed published in the Financial Times, he pointed out the US economy is fundamentally different on one key variable: **the neutral rate.** He said current estimates put the euro area's neutral rate at 2% (0% real rate +2% inflation) while that climbs into the 3%-4% area for the US. That means the Fed has more room to cut rates before encountering the lower bound level, where further reductions are ineffective or even counter-productive. **The ECB has less**, Rehn says, meaning forward guidance retains value when monetary policy ever gets constrained again. Rehn does warn that the recent experience, in particular following the pandemic, has **shown the dangers of taking the tool too far.** Earlier guidance that linked interest rate raises to the end of QE had forced the ECB in larger rate increases than it had signalled initially.

Graphs & Table

Japanese 10-yr bond yield approaching the 3% barrier the government budget assumes. Surpassing it means additional costs

Nasdaq: signs emerging of (real) rates weighing down on equities

German 30-yr: Germany taps sizeable amount in syndicated sale at highest rate in 15 years



USD/BRL: Brazilian assets, including real, under pressure as fiscal worries pick up now president Lula is consolidating its lead in polls

Data source: Bloomberg

German yield	td	-1d	US yield	td	-1d	Stocks	td	-1d
2	2,85	0,05	2	4,18	0,00	DJ euro-50	6498,05	-32,40
5	2,98	0,05	5	4,38	0,00	DAX	26223,02	-115,59
10	3,26	0,04	10	4,73	0,01	S&P 500	7709,41	-35,65
30	3,77	0,02	30	5,32	0,01	Nikkei 225	67460,73	-1759,52
Spread vs GE (bps)	td	-1d	Currencies	td	-1d	Commodities	td	-1d
BE 10y	56	0,60	EUR/USD	1,1581	0,0001	CRB	397,06	0,00
FR 10y	85	0,60	EUR/GBP	0,8554	0,0003	Gold	4447,50	-26,20
IT 10y	81	1,70	USD/JPY	159,61	0,1500	Brent	91,30	0,43

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