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Rates Spark: Data for the EUR belly

The latest volatility in long-end US yields has left the EUR side largely unimpressed. But we look to Friday s data, not so much to challenge the near-term hike discount, but with regard to whether the European Central Bank will be able to back track its tightening in any meaningful way further down the road

Any downside surprise to the eurozone PMIs could help the belly of the curve recover somewhat

With markets firm on upcoming ECB hikes, data might impact the belly more

While US 10y Treasuries have spanned a range of more than 11bp over the past three sessions, 10y Bund yields have remained remarkably sticky just above the 3.25% level, spanning a range of merely 3bp.

While certainly there has been a focus on the US side of things around the US Treasuries actions, it is also partly down to an absence of EUR specific data and events. The picking up of issuance and ongoing concerns around energy and geopolitics are factors to explain elevated yields if we had to lay a finger on it, but they have not really added volatility looking at the traded ranges.

There has been somewhat more movement on the front end, and if anything, this is where the end of the week could now see more volatility with the release of the flash PMIs, and the ECB's consumer inflation expectations survey. The consensus points to marginal weakening in the PMIs, but not to the degree that would really challenge the current rate hike discount. Any downside surprise, though, might help the belly of the curve recover somewhat.

What we have seen since the summer is that data on balance has come in better despite the challenging backdrop. Alongside persistent energy concerns, this has helped put relatively more upward pressure on the belly of the curve. By now, the market has basically shed its hopes for any meaningful backtracking of the ECB tightening further down the road – the 1m OIS out 2 years is at the same level as 1m OIS out 1 year. Since around mid-March, the 2y forward had been consistently below the 1y forward apart from three very brief episodes.

Friday's events and market view

The data calendar is busier as the market eyes the release of the flash PMIs. In the eurozone, the consensus is looking for a marginal drop in the composite from 52 to 51.7, which would still leave it in expansionary territory. In terms of other releases for the eurozone, consumer confidence in August, surveyed by the Commission, is seen remaining at subdued levels. Consumer inflation expectations for July, surveyed by the ECB, are seen unchanged at 3% over the 3-year horizon. Second quarter negotiated wages in the eurozone are seen somewhat lower at 2.4%.

In the US we will also be watching the PMIs. While seen weakening as well, they are still more solidly in expansionary territory with the composite index only seen coming down to 53.9.

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