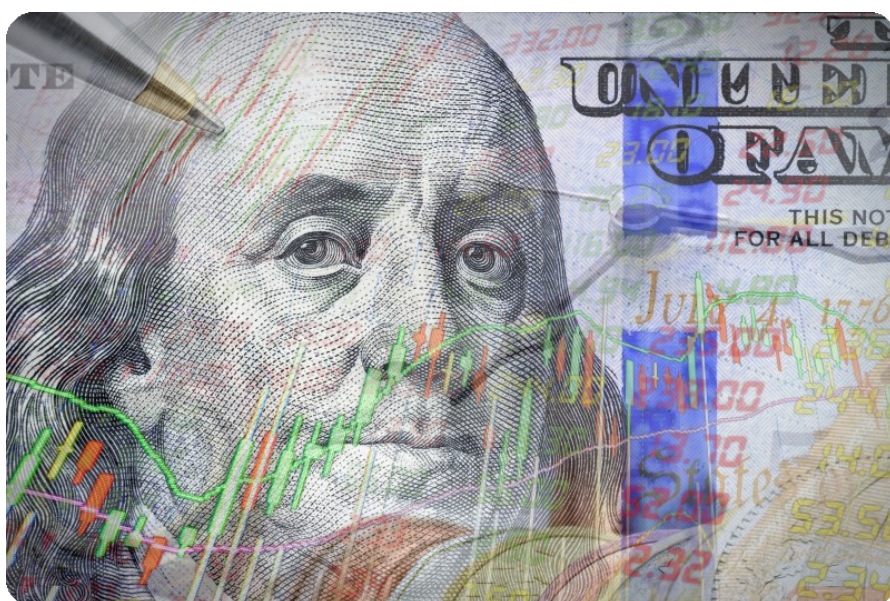


Article | 31 August 2026

RATES SPARK

Rates Spark: Curve influencers

Warsh and Bessent – the bond influencers. But bigger market pressures should dominate. Tactically, the oil price drives much of the short-term moves in rates. Structurally, it's the global rise in real rates – that is the real influencer



Fed Chair Warsh and Treasury Secretary Bessent have their attention focused on the front end and back end of the yield curve

Here's why Kevin Warsh and Scott Bessent can both see silver linings from latest developments

Key moves are being seen on both ends of the curve through Monday, as the market continued to digest Chair Warsh's words from Friday. On the front end, the probability of a 25bp hike from the September FOMC meeting has flipped from 50:50 to 3:1 in favour. That's meaningful. Not quite fully discounted. But absolutely heading in that direction. On the back end, the 10yr break-even inflation rate continued to ease lower. Only by a few basis points. But it's the kind of move that should please Chair Warsh, as it suggests that his hawkish words have acted to contain inflation expectations, even if they weren't high to begin with (still in the 2.3% area).

However, the 10yr yield continued to edge higher, just as it did on Friday afternoon. The culprit is ongoing upward pressure on real yields, a theme we've opined on now for many months. Higher real yields suggest that the pressure being felt in long rates is not from inflation. It's

from a combination of issuance pressure (current and anticipated), and it likely incorporates a positive productivity growth slant coming from the AI revolution. Chair Warsh specifically referenced a positive secular growth dynamic up for discussion at the opening of the G20 summit in South Carolina. That gels with higher real rates.

The optics of seeing Treasury Secretary Bessent deplaneing with Fed Chair Warsh from Air Force Two were interesting. Not indicative of anything specific, apart from a reminder that both of these men have their attention squarely on the front end and back end of the yield curve. Chair Warsh effectively warned us on Friday that front-end rates may need to be adjusted higher. A week or so earlier, Treasury Secretary Bessent moved to contain long-end yields through an intention to more than double the volume of long-end buybacks. He went on to assert on Monday that he was not targeting any particular level; rather, he was just prodding the market towards a fairer valuation, from his perspective.

Ahead, the front end is liable to remain sticky now at elevated yields unless negated by a weak payrolls report on Friday. But back-end yields remain under rising pressure. We continue to anticipate a move in the 10yr yield into the 4.75% to 5% area as the real-rate elevation pressure remains. Note that Treasury Secretary Bessent can still claim a victory lap, given the tightening seen in long-tenor swap spreads, vis a vis relative richening in long-end Treasuries. As a percent of total spreads, these are in some 10% since the buyback announcement, and looking reasonably resilient to the downside. Overall, the curve should steepen from the back end.

Printed Eurozone inflation is too high, but inflation expectations are still well-contained

Consensus sees August's eurozone headline CPI number tick up to 3.3%, but inflation should not be the main concern for euro rates. On a daily basis, oil is the key driver of rates, but overall the pricing of inflation risks remains very well-behaved. The 2Y inflation swap stands at 2.5%, which is above target but far from alarming. Meanwhile, the 5Y5Y forward inflation swap is just 2.15%, reflecting a high degree of confidence in the ECB's monetary policy.

The bigger source of uncertainty can be found in real rates, which have been drifting higher over the past years, especially in the US. Even though Fed Chair Warsh raises the risk of a perceived policy error, long-term market measures in the US still point to a benign inflation outlook. The 10Y inflation swap at 2.5% is actually at the lower end of the trading range from the past years. But with the 10Y UST at 4.75%, implied real rates are the ones testing new highs.

That doesn't mean inflation risks can be safely ignored either. If we do get upside inflation surprises from the eurozone, euro rates can easily push higher still, especially at the short end of the curve. Second-round inflation risks remain a material risk and the ECB has shown a willingness to hike if necessary. And with growth numbers still showing a robust economic

outlook, we would see little pushback against another more hawkish turn.

Tuesday's events and market view

Out of the eurozone we will get preliminary inflation data for August, with consensus eyeing a rise to 3.3% for headline inflation and the core rate staying at 2.5%. Releases so far are pointing in the direction of the consensus, but that still means inflation is currently running well above the ECB's target with little relief from the direction of geopolitics. Other releases to watch out of the bloc are the final PMIs, which also provide the first individual August readings for Italy and Spain. From the ECB, Nagel and Vujcic will be speaking.

The US publishes the manufacturing ISM with consensus eyeing only a marginal softening to a still solid 55.3. Jobs-related data will be the main focus though, with the release of the JOLTs jobs openings data for July. The only scheduled Fed speaker for the day is Barr.

In government bond primary markets, Germany will auction €5.5bn in 5y bonds.

Author

Padhraic Garvey, CFA

Regional Head of Research, Americas
padhraic.garvey@ing.com

Benjamin Schroeder

Senior Rates Strategist
benjamin.schroeder@ing.com

Michiel Tukker

Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for

THINK economic and financial analysis

any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.