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RATES SPARK

Rates Spark: Global crosswinds leading euro rates

Inflation and confidence data releases are important for the eurozone economic outlook, but are not the main drivers of rates at the moment. Second-round inflation effects take time to show up in the data. Meanwhile, the ECB sees higher long-term rates as a growth headwind and remains committed to a measured response



In the eurozone, AI-related investments are a bigger theme than consumers

Consumers are still pessimistic, but are not a main player

From the eurozone, we will watch the first country-level CPI releases and confidence data, though neither is likely to distract from the broader global crosswinds. Markets will watch for signs of second-round inflation effects, but these are unlikely to appear in this week's data. In particular, the pass-through into wages takes time to materialise as energy prices stay elevated longer. European Central Bank President Christine Lagarde reiterated on Monday that wages were not yet showing a material response to the energy shock.

The ECB appears more aware of the headwind that rising market rates can pose. In her hearing at the European Parliament, Lagarde remarked that long-term interest rates had risen notably, which would slow growth and also reduce the pass-through more than was assumed in the September projections. She stated the ECB remained on the 'middle path' it had laid out earlier in the year, where a 'measured response' was still appropriate despite the larger energy shock.

The one clear weakness in global sentiment data is consumer confidence, but consumption is not driving the upturn in the economic outlook. AI-related investments are the bigger theme, and the role of the consumer in this narrative is unclear. Potential job losses from AI can weigh on consumer sentiment even while aggregate growth numbers paint a more positive picture. The bigger surprise would be a pickup in consumer sentiment. A pickup in consumption would add significant heat to an already resilient eurozone growth outlook. In that case, brace for more ECB interest rate hikes.

Tuesday's events and market view

Geopolitical headlines and upward pressure on energy prices provide rates with an excuse to push higher. EUR markets will look to the first country CPI data out of Spain for confirmation as headline rates are expected to rise. There is also a very busy slate of ECB officials: Nagel, Kazimir and Vujcic represent the hawkish end, President Lagarde, Chief Economist Lane and Italy's Cipollone come from the neutral to dovish spectrum. Also watch out for Bank of England speakers Mann and Taylor.

In terms of US data, the focus will be on the JOLTS job opening numbers as well as the Conference Board's consumer confidence index. It will also be busy on the Fed speaker front with Bowman, Goolsbee, Musalem, Williams and Waller among others scheduled for the day.

The primary market focus is the new 20y bond from the Netherlands to be launched via DDA (€5-6bn). Italy will auction a new 5y bond alongside taps in the 10y benchmark and 10y floater (€8bn). The UK auctions 10y gilts (£4.35bn).

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