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RATES SPARK

Rates Spark: Welcome to the 5% club

The yield on a 10Y French government bond easily pushed through 5%, even though the rest of the market painted a more positive picture. Despite wider spreads, markets are not quick to turn more dovish on the ECB, but this could change



With the recent unrest in France, the yield on the 10-year government bond is at 5%

Markets not fazed by French bonds pushing above 5%

The 10-year French government bond yield initially found some resistance around 5% but easily broke that handle later in the day. The sell-off continued as investors evaluated the impact of the latest unrest. Meanwhile, other parts of the markets painted a more positive picture. Equities were up and oil managed to nudge lower. The divergence between France and the rest of the market suggests contagion risks are still deemed minimal, in line with our own view.

Also, the front end of the euro swap curve was quite resilient to the latest sell-off in French bonds, suggesting inflation risks are still the focus. This was different at the beginning of the month, when a sell-off in European government bonds (EGB) was matched by a dovish repricing of the ECB. But since then, oil and gas prices have made a push higher again, reminding markets of the still unresolved conflict in the Middle East. While a further widening of EGB spreads could ease the upward pressure on shorter-dated rates, don't expect a material repricing.

ECB officials have also not made a clear dovish turn on the latest turbulence in EGB markets, but this could change if the growth outlook is impacted. So far, economic data have shown resilience, but higher borrowing rates and (geo)political uncertainties ahead don't help the already fragile outlook. Meanwhile, the evidence for second-round effects remains scant.

Thursday's events and market views

The day starts with French confidence indicators for October, although these won't incorporate the latest unrest. For the eurozone we will have consumer confidence numbers, and even though these are already quite downbeat, consensus sees a further worsening. From the US, we have weekly job loss numbers and the Conference Board leading index.

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