

12 March 2024

Outlook for bond market developments

ECB Bond Market Contact Group, 12th March 2024

Zoeb Sachee

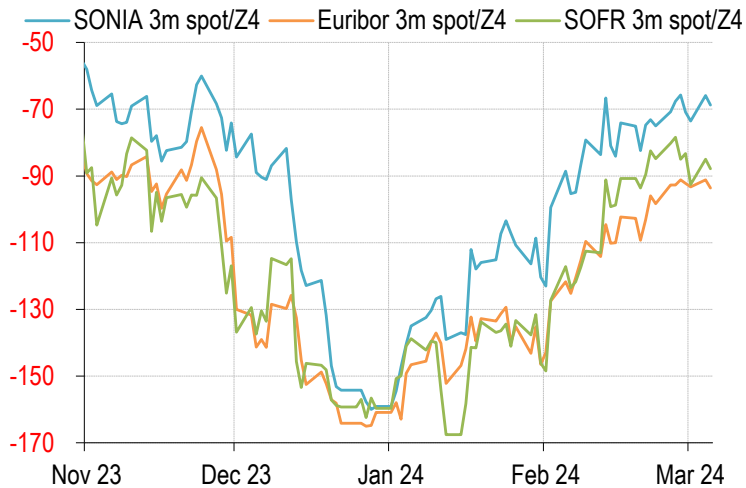
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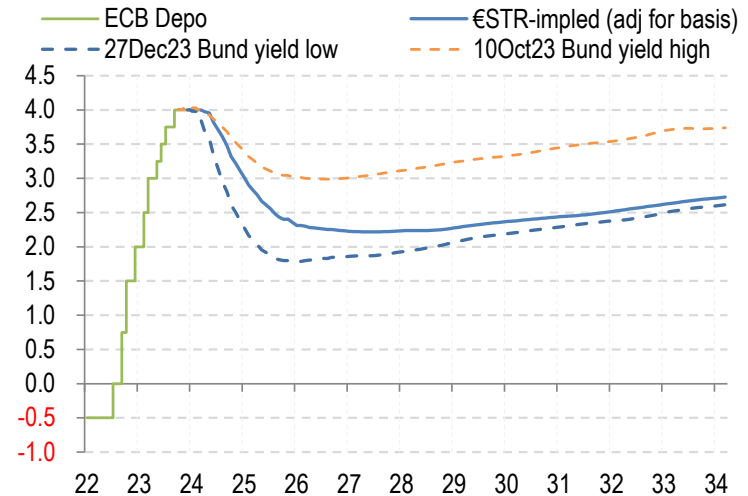
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Wrong-footed by the Fed

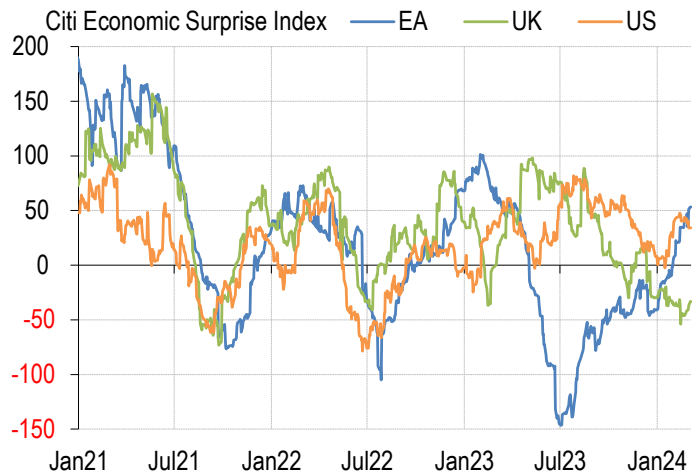
Global front-ends still in sync, pricing out early rate cuts...



...with terminal rate pricing higher (back above 2% for the ECB)



US/EA economic data has surprised on the upside...



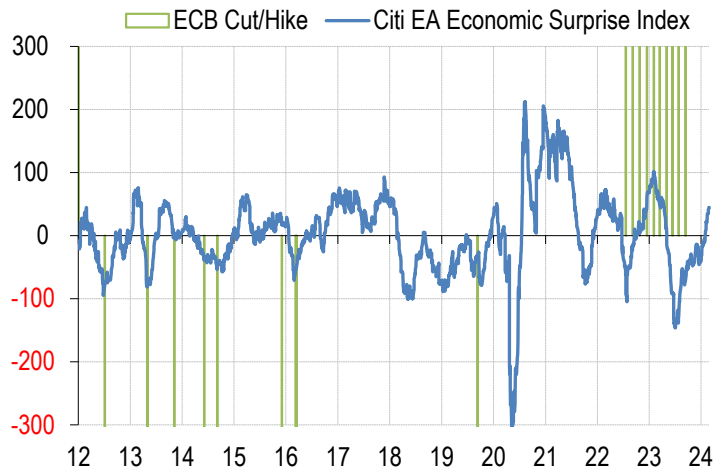
...but the market's inflation view is little changed



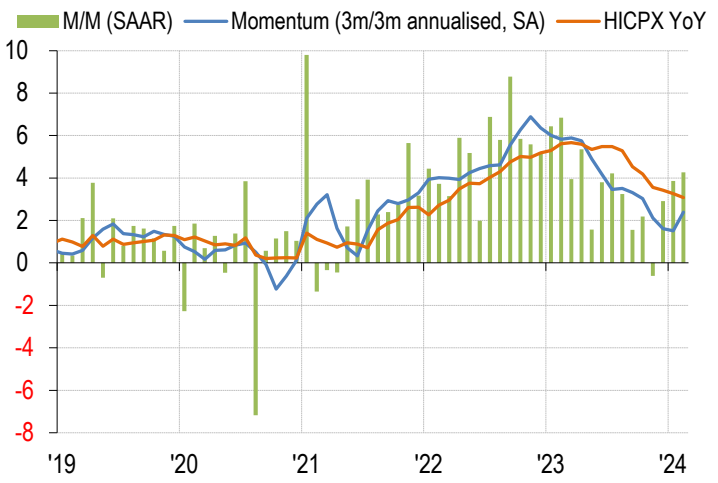
Source: Citi Research, Bloomberg. All pricing as of 15:30 GMT5Mar24.

Are cuts still on track?

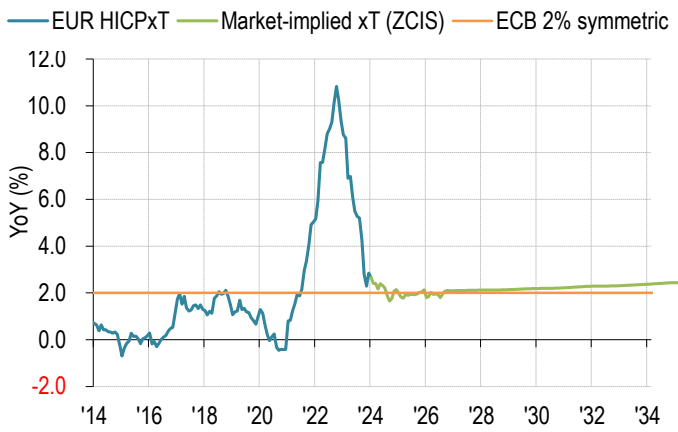
Positive EA economic surprises argue against imminent ECB cuts...



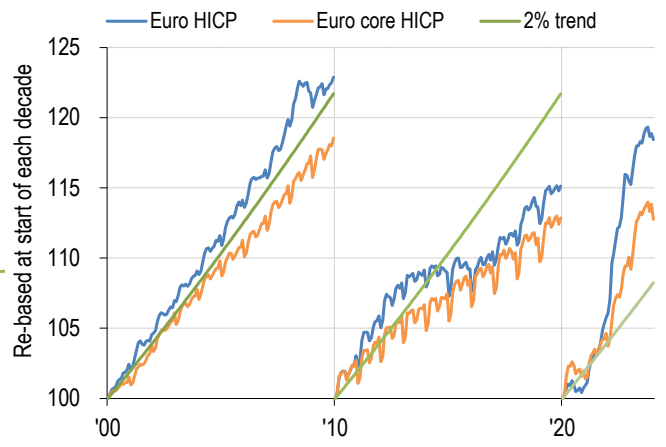
...as does the recent strength in core EA inflation.



..but inflation is still likely on track to hit 2% soon, with long-term market-implied inflation expectations incredibly well anchored....



...with the range of plausible outcomes including a return to the pre-pandemic inflation undershoot.

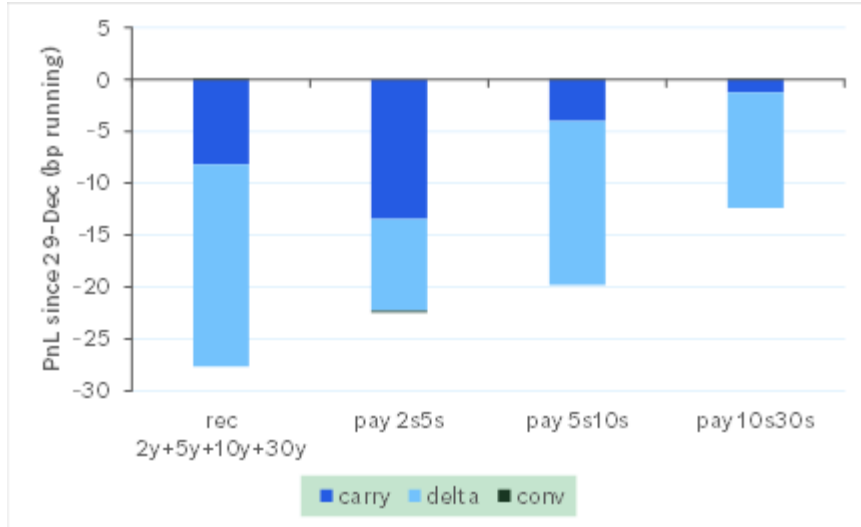


Source: Citi Research, Bloomberg, ECB, Eurostat. All pricing as of close 5Mar24.

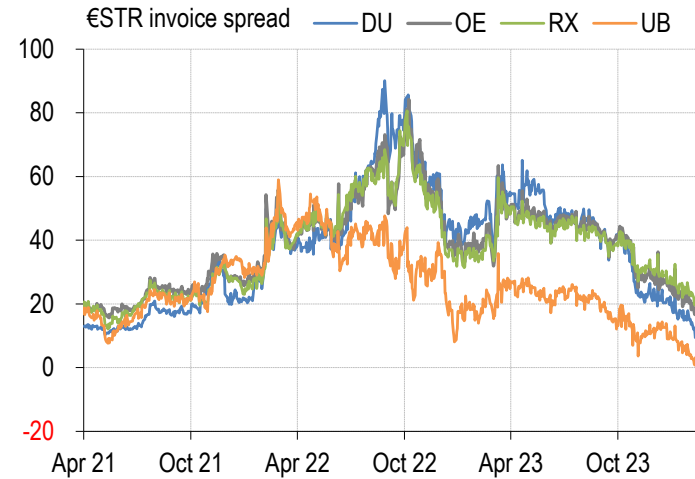


Consensus trades vs reality

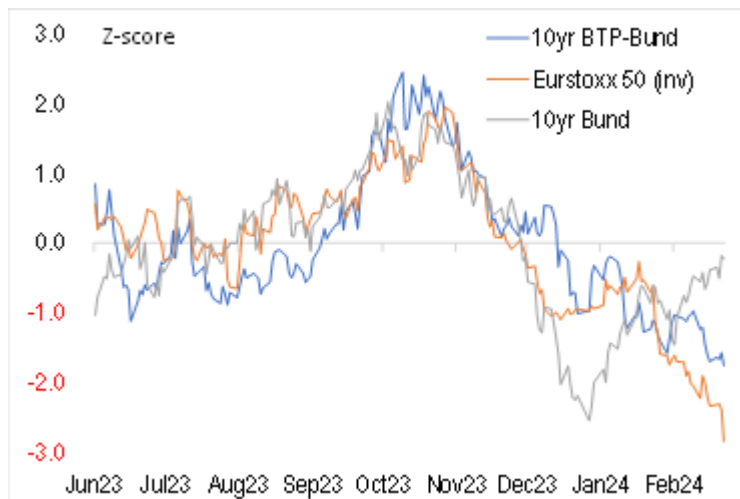
Consensus steepeners have been painful in 2024...



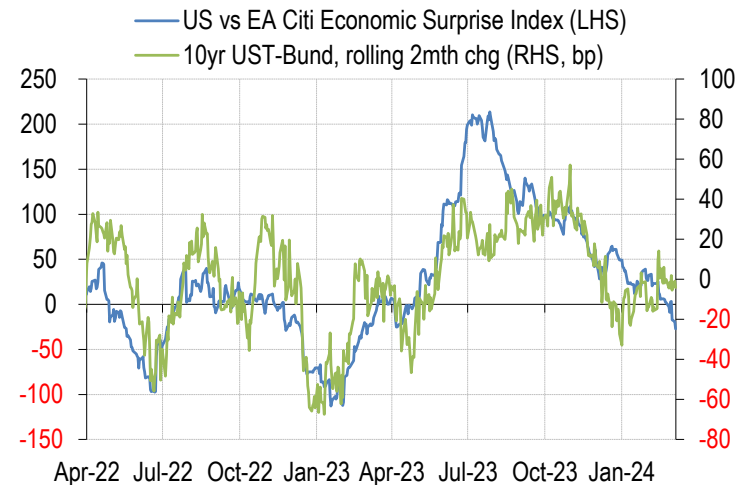
...although consensus ASW cheapening has worked...



...with BTPs still outperforming alongside equity strength.



Ahead, cross-market expressions are likely to be popular as global policy cycles potentially diverge.



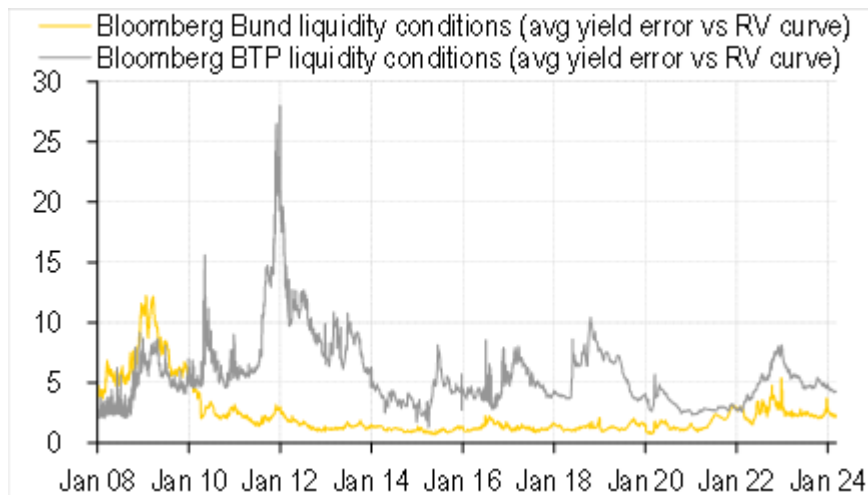
Source: Citi Research, Bloomberg. All pricing as of close 5Mar24.

Discussion points

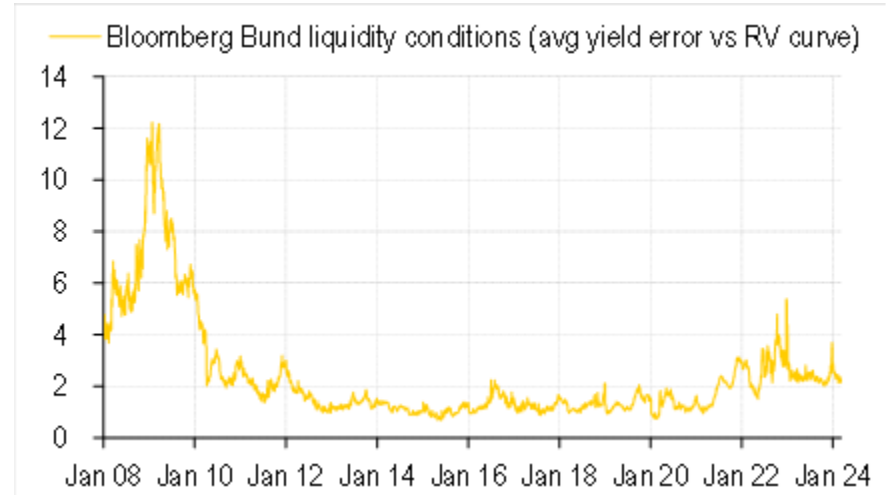
Group Discussion Points

- 1) Are central bank reaction functions becoming less clear given recent volatility?
- 2) How safe is it to scale into duration risk?
- 3) Is the market right to assume a high degree of synchronicity in global easing cycles?
- 4) When will steepeners work?
- 5) Is the strength in risky assets sustainable?
- 6) Should we still be talking about inflation so much?
- 7) Have Liquidity conditions changed?

Bloomberg liquidity series



Just Germany...



Source: Citi Research, Bloomberg. All pricing as of 15:30 GMT5Mar24.

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