

European Rates Alpha

Target reached on 3m1y EUR payer spread

Continued pricing out of ECB cuts drives 1y selloff

We close our payer spread in the top left of the curve (3m1y ATM+25/ATM+50bp eq to 3.42%/3.67%) entered early December to position tactically for the pricing out of early ECB rate cuts ([European Rates Alpha](#)).

The option structure was due to expire on 5-Mar, but it has reached its 15bp target as the 1y rate (3M-E) forward to 5-Mar has risen to 3.60%.

As discussed earlier this week, when we closed our Mar-Apr ECB date steepener, we see front-end risks as more balanced now (see [European Rates Alpha 19-Feb](#)). The market has moved from pricing in over 160bp of cuts for 2024 back in December, to just under 100bp now for the year. We believe this could be achieved if the ECB delivers a first cut in June, a second one in Sep and accelerates the cuts to one per meeting thereafter. This is not our economists' baseline (they pencil in an acceleration of cuts only for December onwards), but it is a risk that they now highlight given the recent inflation prints.

Further out the curve, we reiterate our medium term structural bullish view, expressing the notion that the trough in the ECB's cutting cycle is likely to be much lower than currently priced. We are received 2y1y €str (entered in our [Global Rates Year Ahead](#) at 2.45%, current: 2.38% , target: 1.70%, stop at 2.90%). The risk to the trade is upside surprises in Eurozone growth / inflation.

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For a list of our open rates trades and those closed over the past 12 months, see the latest [Global Rates Weekly \(16 February 2024\)](#).

ECB: European central bank

€str: euro short-term rate

EZ: Eurozone

QE: quantitative easing

QT: quantitative tightening

USTs: US treasuries

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