Rates Spark: German fiscal plans likely to pass the first hurdle

The week began with a notable bull flattening of EUR curves as Germany's fiscal package heads towards its first vote. As the numbers should be there to pass the package, we suspect it was the market taking a more sober look at the wider EU fiscal plans while also refocussing on more immediate risks, i.e. rising trade tensions

The first vote on Germany's fiscal package takes place today

Markets refocus on the more immediate risks as Germany's debt plans see their first vote

US markets took some relief from the fact that the US consumer remains more resilient in light of the increasingly uncertain outlook as the new administration's policies take shape. It also means that the Fed should feel more confident keeping rates on hold so as not to signal any hurry towards further easing.

Accordingly, it was also the front end of the curve that was seeing the largest impact with the trough of the SOFR strip moving towards 3.6% and thus also lifting the implicit floor for long-end rates. Meanwhile, the long end seemed to have been caught in the downward dynamics of EUR rates where 10Y Bund yields dipped 6bp lower on the day and 30Y yield by close to 9bp.

On Monday, EUR rates saw an aggressive bull flattening move. This could be due to a more measured evaluation of the EU and Germany's fiscal packages. However, it might also be a shift in focus towards more pressing issues with immediate impact, such as the escalating trade tensions. To put things in perspective, after flattening by approximately 5 basis points, the 2s10s spread remains nearly 20 basis points steeper compared to the end of February.

Regarding the EU package, there is some valid scepticism about whether the headline figure of €800bn can be reached. As for Germany's package, the Bundestag will vote today (the session is scheduled from 10:00 to 13:30 CET) with a minor tail risk as the party discipline of outgoing parliamentarians might be lacking. But by most calculations, the plan will have the required numbers to pass, and future Chancellor Merz was confident of a positive outcome on Monday after a meeting with the parliamentary group. CDU/CSU, SPD and Greens together have a buffer of 31 votes.

For the next step in the Bundesrat – Germany's upper house representing the federal states – a passage seems likely after Bavaria's coalition agreed on a positive vote yesterday. The states are eyeing the relief for their own and regional budgets from the infrastructure plans.

Dutch advisory body argues against introduction of referendums to transition pension funds

Dutch pension funds in the midst of the transition process have been looking with unease at the law proposal of two Dutch parties that would introduce a requirement for each fund to obtain a vote of approval from its participants before transitioning assets to the new system. The Minister of Social Affairs had asked the State Council's advisory body to evaluate the proposal, and some news outlets indicated last week that it would likely be very critical.

The State Council indeed came back with serious objections to the proposal yesterday, saying that it could have severe consequences which had not been adequately considered, such as undermining the solidarity and collective nature of the pension system. According to the Council, the proposal also failed to meet legislative quality standards and would disrupt the ongoing transition, which has already been extensively discussed with all social partners and where some funds have already made the transition.

The parties that introduced the proposals have signalled some initial defiance to the advice, but it puts the Minister of Social Affairs in a particular tight spot since his party was one of the backers.

Today's events and market view

The main focus for EUR rates is the vote on Germany's fiscal plans, where a negative outcome looks more like a distant tail risk now. The planned call between Trump and Putin adds geopolitics to the mix.

In data, we will be watching Germany's ZEW index where the expectations component is seen jumping from 26 to over 48 on the back of recent developments, even if the current situation remains mired in deeply negative territory. The US calendar offers industrial production data as a highlight, but we also have import prices, housing starts and building permits data.

In European primary markets, Finland is seen auctioning 10Y and 1Y bonds (€1.5bn). The UK sells 3Y gilts (£4.25bn) and the US Treasury is tapping its 20Y bond (US$13bn).

Author

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

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