

# European Sunrise

## Wobbly balance

**Rates:** Bunds look set to remain vulnerable near-term as upcoming US inflation data adds weight to the Fed's front-loading while still solid activity data bolsters risk sentiment. Downside remains limited though as gas anxiety continues.

**Supply:** Modest EGB supply of €16.5bn from Germany, Netherlands, Greece and Italy meets decent €30.5bn backflows. In SSAs, the first H2 NGEU syndication and the KfW mid-year funding update will be in focus at the start of the week.

### Overnight News

**ECB:** Holzmann says ECB should hike rates by 50bp in July and by 75bp in September, if inflation outlook doesn't improve. Stournaras sees 25bp hike "very likely" in July, hopes that new instrument will surprise markets "on the positive side" as a "strong" tool could stay on the shelf.

**Euro area:** BBG poll shows 55% recession risk in Germany and 45% in euro area (up from 30% last month), inflation to peak this quarter, and ECB raising depo rate to 1.25% by March.

**Fed:** Williams sees 50 or 75bp July hike on the table. He expects GDP growth below 1% in 2022 and around 1.5% in 2023.

**Gas:** Canada returns sanctioned gas turbine to Germany by issuing "time-limited and revocable" permit. French FinMin Le Maire says total Russian gas cut-off is most likely scenario.

**France:** Govt mulls extending energy tariff shield beyond 2022 on targeted basis for poorest households, PM Borne says.

**Sanctions:** EU is working to improve enforcement of its sanctions against Russia (WSJ).

**Ratings:** Fitch affirms Greece at BB/positive, ESM at AAA/stable, EFSF at AA, raises outlook for US (AAA) to stable citing improved debt dynamics and downgrades Turkey one notch to B/ negative. DBRS confirms Netherlands at AAA/stable.

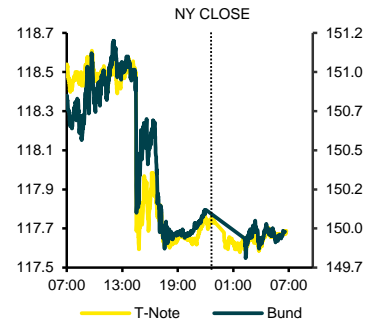
**China:** CPI rises stronger than expected to 2.5% in June (exp. 2.4%), PPI slows less than expected to 6.1% (exp. 6.0%). June CPI won't stand in the way of more stimulus, state media says. Covid-19 cases in Shanghai continue to rise, incl. first case of BA.5. Property developer Ronshine misses payments on senior notes.

**Japan:** Ruling LDP and its junior partner increase majority in upper house election to 76 seats (out of 125).

**Markets:** USTs trade rangebound near Friday's lows. Upbeat Nikkei on election, downbeat China stocks on Covid situation, e-minis weaken. DXY recovers, Yen falls to new low. Brent holds above \$106/bbl.

11 July 2022

### Overnight Markets



Source: Bloomberg

### Bund Future

Tactical positioning for today\* (RXU2)

neutral

Target

Stop

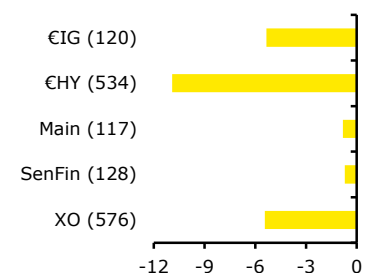
Cumulative performance YTD: +195 ticks

since 2014: +3679 ticks

\*8:00am to 5:15pm CET

Source: Commerzbank Research

### Credit 1d changes (level) in bp



Source: Bloomberg

Author

Rainer Guntermann

Rates Strategist

+49 69 136 87506

rainer.guntermann@commerzbank.com

**Economic events**

CET	Region	Indicator	Period	Unit	Forecast	Survey	Last value
	EUR	Eurogroup meeting					

**Primary market**

CET	Issuer	Event	Size
	EU	NGEU syndication announcement (e)	€8.0bn (e)
12:00	GR	GGB 1.75% Jun32	€0.5bn (e)
17:00	BE	Announcement for OLO auction on 18 Jul	
19:00	US	New 3y UST	\$43.0bn

(e) = expected; (p) = preliminary; Source: Bloomberg, Commerzbank Research

## Rates: Wobbly balance

Bunds remain vulnerable near-term as headwinds persist. The gas anxiety continues with the 11-day maintenance period for Nord Stream 1 starting today but the data turns the focus on Fed tightening, while **hawkish ECB** talk (Holzmann) continues ahead of the blackout period beginning on Thursday. As rising rate expectations could weigh on risk sentiment, cross-market feedback loops could provide support though.

The **US-Treasury curve** shifted some 8bp higher following the strong payroll report, with the 2-10y curve remaining inverted. 20y remains the cheapest point on the curve with the nominal yield having risen above 3.55%, driven by both higher break-evens and a higher **real TIPS yield** above 1.25%.

A likely new **record high US inflation print** this week should tip the balance for a 75bp hike later this month, which is virtually priced in by now. Fed expectations are shifting higher again, but remain inverted beyond March-2023 (see left-hand chart below).

The front-loaded Fed tightening is also spilling over to €STR forwards with the market pricing slightly more than 25bp ECB lift-off this month and 50bp in September. The €STR forwards for 2023 remain lower on the week though given euro area recession fears (see right-hand chart below). A crucial litmus test for the tightening pattern could come much earlier though with the planned end of the Nord Stream 1 maintenance targeted to end one day after the ECB lift-off decision.

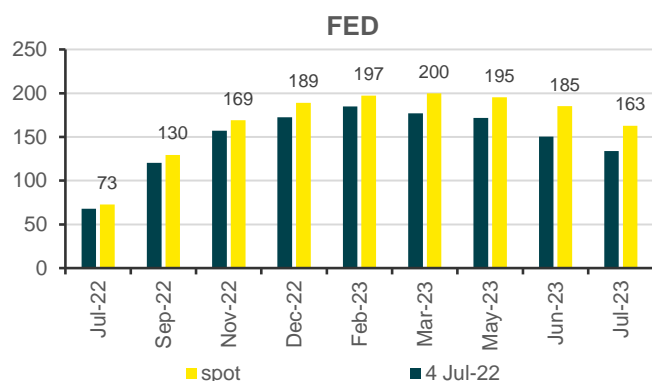
Lingering recession risks should keep the Schatz better supported and the Bund curve with a steepening bias also as US headwinds extend.

The backdrop for **EGB spreads** remains choppy as tangible official colour on the planned TPM instrument seems unlikely near-term with headline risks still stemming from sources. Hawkish rates talk (see Overnight News) could put the latest BTP-Bund spread tightening to the test again. 10y Greece continued to underperform on Friday as upgrade hopes did not materialise and the PDMA announced another auction for today (see below).

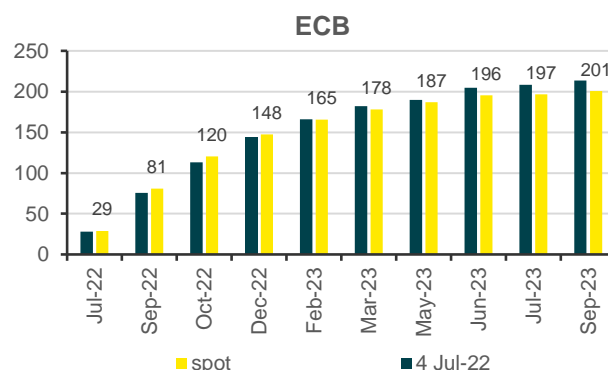
Today's Eurogroup meeting could provide relative support for spreads as finance ministers may signal further fiscal support in case of economic hardship on a worsening energy crisis when discussing the budgetary situation in the euro area.

### Fed expectations shifting higher, 2023 ECB expectations shifting lower

Fed- and ECB-dated rate hike expectations, derived from OIS forwards/Fed Funds Futures and €STR forwards, spot vs. last Monday, in bp



Source: Bloomberg, Commerzbank Research



Source: Bloomberg, Commerzbank Research

## Supply: EU syndication, KFW update, moderate EGB volume, decent backflows

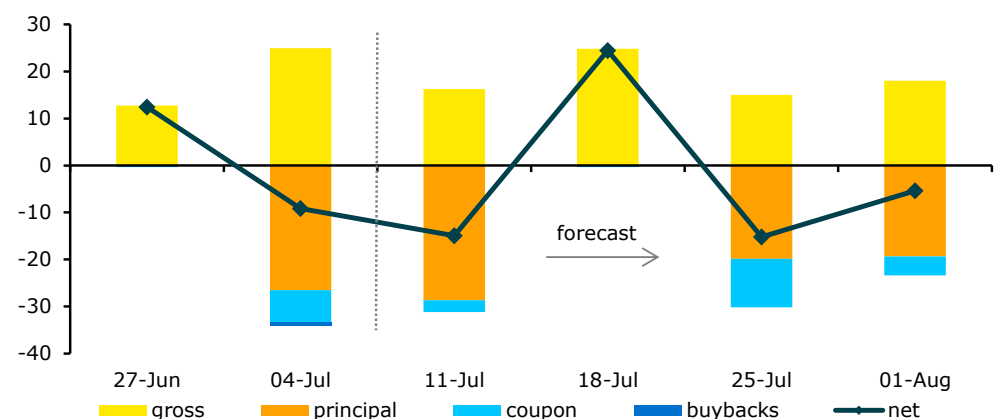
The EGB auction volume should moderate to about **€16.5bn** this week (vs. €25bn last week).

**Germany** is scheduled to tap its Schatz tomorrow and 30y Bund on Wednesday while the **Netherlands** will be active in its 10y DSL. In the periphery, **Greece** will tap its 10y GGB Jun32 today and **Italy** will get active in 3y/7y/15y BTPs. Portugal, however, decided to stay put.

Decent **€30.5bn** redemption and coupon payments keep net supply in negative territory. The **backflows** from the Netherlands (€16.6) and Italy (€13.9bn) will be available for reinvestment from Wednesday (considering t+2 settlement).

### Benign flow pattern extends

Expected EGB issuance and backflows over the coming weeks, in €bn



Source: DMOs, Bloomberg, Commerzbank Research

At the start of the week, **SSAs** will be in focus. The EU should kick-start its H2 funding with a **NGEU syndication**. The NGEU funding target for H2 is €50bn (same as in H1), and given four auctions and five syndications, the size of the upcoming transaction should be around €8bn. MFA/SURE funding could boost total H2 issuance to €65.6bn and should lead to larger syndications after the summer break.

The **KFW mid-year funding update** will also be in focus. There is uncertainty with potential upside risk for the funding given the government's several new bailout and relief packages for the energy sector which should partly be paid out via KFW.

It remains unclear whether the initiatives are only backed by Federal guarantees or also involve Bund funding similar to the economic support measures during the corona crisis. Either way, as most measures appear to imply credit lines rather than swift payouts of the full amounts as well as a temporary and thus short-term character, we expect limited impact on KFW bond funding and spreads. Even in case of an upward revision, the funding progress should cushion any adverse impact on spreads. The current KFW bond funding target for 2022 foresees a €80-85bn range of which €64bn (i.e. 75%) are already funded.

### Scheduled rating updates on Friday, 15 July

Issuer	Rating agency	Current rating/outlook	Last action by rating agency		Next scheduled update
Spain	Moody's	Baa1/Stable	09/18/2020	Affirmed	02-Sep-22 by DBRS
Ireland	DBRS	AA (low)/Stable	01/14/2022	Upgrade to AA (low)/Stable	22-Jul-22 by Fitch
Luxembourg	Fitch	AAA/Stable	02/11/2022	Affirmed	29-Jul-22 by DBRS

Source: Rating agencies, Commerzbank Research, \*) for our handy 1-page overviews of all 2022 €-sovereign rating reviews by date and by country see [Rates Radar](#).

**Primary market**

CET	Issuer	Event	Size
<b>Monday, 11 July 2022</b>			
	EU	NGEU syndication announcement (e)	€8.0bn (e)
12:00	GR	GGB 1.75% Jun32	€0.5bn (e)
17:00	BE	Announcement for OLO auction on 18 Jul	
19:00	US	New 3y UST	\$43.0bn
<b>Tuesday, 12 July 2022</b>			
10:00	NL	DSL 0.5% Jul32	€2.0bn (e)
11:30	DE	Schatz 0.2% Jun24	€5.5bn
19:00	US	10y UST reopening	\$33.0bn
<b>Wednesday, 13 July 2022</b>			
11:00	IT	BTP 1.2% Aug25, 2.8% Jun29, 3.25% Mar38	€7.0bn (e)
11:30	DE	Bund 0% Aug52	€1.5bn
19:00	US	30y UST reopening	\$19.0bn
<b>Thursday, 14 July 2022</b>			
17:00	US	Announcement for 20y UST reopening and new 10y TIPS on 20, 21 Jul	
<b>Friday, 15 July 2022</b>			
11:00	FR	Announcement for medium-term and inflation-linked OAT auction on 21 Jul	
14:00	ES	Announcement for SPGB auction on 21 Jul	
12:30	BE	Size announcement for OLO auction on 18 Jul	
<b>Monday, 18 July 2022</b>			
12:00	BE	OLO auction	€2.8bn (e)
<b>Tuesday, 19 July 2022</b>			
11:30	DE	Bobl 1.3% Oct27	€4.0bn
<b>Wednesday, 20 July 2022</b>			
11:30	DE	Bund 0% Aug30 (green)	€1.5bn
19:00	US	20y UST reopening	\$14.0bn
<b>Thursday, 21 July 2022</b>			
10:30	ES	SPGB auction	€5.5bn (e)
10:50	FR	Medium-term OAT auction	€10.0bn (e)
11:50	FR	Inflation-linked OAT auction	€1.0bn (e)
17:00	US	Announcement for new 2y, 5y, 7y USTs and 2y FRN on 25, 26, 27, 28 Jul	
18:00	IT	Announcement for BTP Short Term/BTPei auction on 26 Jul	
19:00	US	New 10y TIPS	\$17.0bn
<b>Friday, 22 July 2022</b>			
14:00	PT	Possible announcement for PGB auction on 27 Jul	

**Economic Calendar**

CET	Region	Indicator	Period	Unit	Forecast	Survey	Last value
<b>Monday, 11 July 2022</b>							
	EUR	Eurogroup meeting					
<b>Tuesday, 12 July 2022</b>							
	EUR	Ecofin meeting					
11:00	GER	ZEW Index	Jul	sa	-45.0	-39.3	-28.0
<b>Wednesday, 13 July 2022</b>							
-	CHN	Imports in USD	Jun	y/y	-	4.0	4.1
08:00	GBR	Monthly GDP	May	m/m, sa	-	-	-0.3
08:45	FRA	CPI	Jun F	y/y	5.8	5.8	5.8 (p)
08:45	FRA	CPI ex Tobacco	Jun	index	111.76	111.76	110.95
11:00	EUR	Industrial Production	May	m/m, sa	0.5	0.1	0.4
14:30	USA	CPI	Jun	m/m, sa	1.2	1.1	1.0
14:30	USA	CPI ex Food and Energy	Jun	m/m, sa	0.5	0.6	0.6
16:00	CAN	Bank of Canada Rate Decision		%	-	2.0	1.5
<b>Thursday, 14 July 2022</b>							
14:30	USA	PPI, Final Demand	Jun	m/m, sa	-	0.8	0.8
14:30	USA	Initial Claims	9 Jul	k, sa	-	-	235
<b>Friday, 15 July 2022</b>							
04:00	CHN	Industrial Production	Jun	y/y	-	4.2	0.7
04:00	CHN	GDP	2Q	y/y	-	1.0	4.8
14:30	USA	Empire State Index	Jul	sa	-	-2.6	-1.2
14:30	USA	Retail Sales	Jun	m/m, sa	1.0	0.9	-0.3
14:30	USA	Retail Sales (ex Autos)	Jun	m/m, sa	0.8	0.7	0.5
15:15	USA	Industrial Production	Jun	m/m, sa	-	0.0	0.1
16:00	USA	Consumer Sentiment (Uni Michigan), prel.	Jul P	sa	-	49.0	50.0

(e) = expected; (p) = preliminary; Source: Bloomberg, Commerzbank Research

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Marketweight (MW)	We expect performance in line with the benchmark in spread and/or total return terms
Underweight (UW)	We expect underperformance versus the benchmark in spread and/or total return terms
<b>Benchmark</b>	Unless stated otherwise, the benchmark is the iBoxx € Corporate for IG-rated names/instruments, and the iBoxx € High Yield core cum crossover LC for HY-rated names/instruments

##### II) Outright recommendations:

Buy	We suggest entering / expanding positions in the relevant names/instruments
Sell	We suggest reducing / closing positions in the relevant names/instruments
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	All covered instruments	The proportion of issuers in each of these categories for which Commerzbank provides investment banking services
Overweight	14%	100%
Marketweight	43%	67%
Underweight	43%	33%

Source: Commerzbank Research

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Neutral	16%	0%
Underweight	38%	0%

Source: Commerzbank Research

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Commerzbank AG	Commerzbank AG	Commerz Markets LLC	Commerzbank AG	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus	PO BOX 52715	225 Liberty Street, 32nd floor,	71, Robinson Road, #12-01	15th Floor, Lee Garden One
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