



ECB BMCG

Rates Market Update

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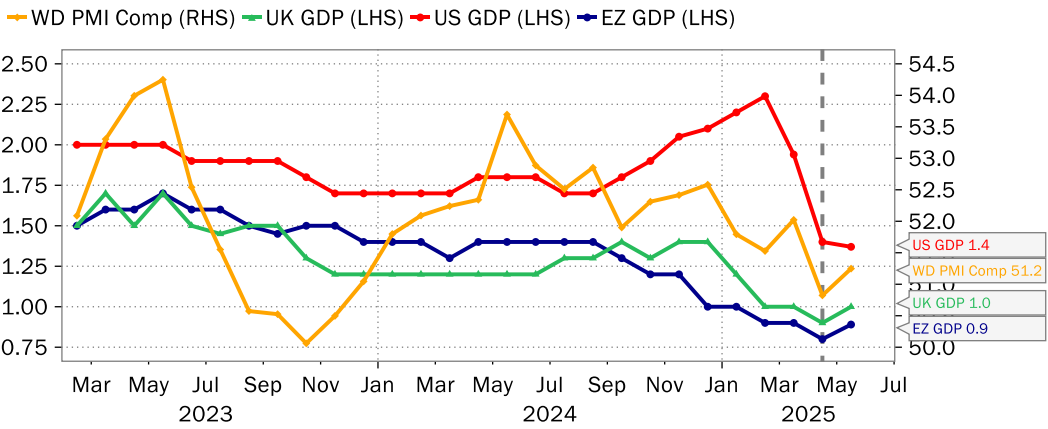
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Rates markets have been influenced more by inflation downgrade than the growth upgrade

EZ consensus growth upgraded, while US downgraded since the tariffs

Consensus GDP 2025

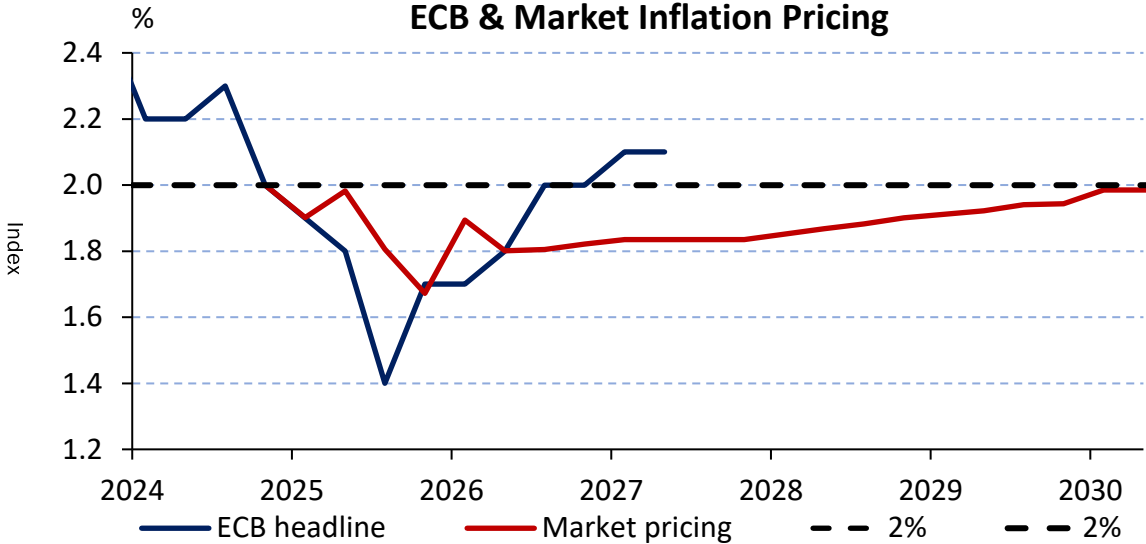


Source: Macrobond, Bloomberg

The market is assuming inflation not back to 2% until 2030.

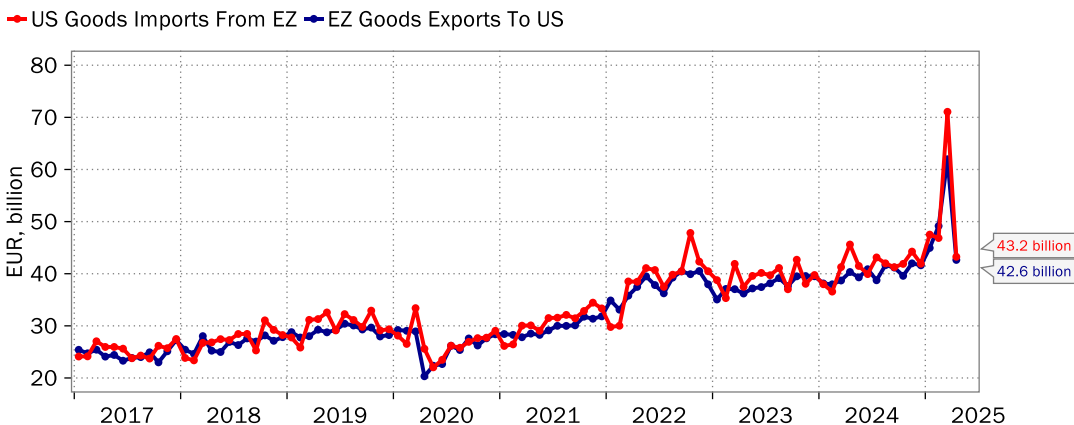
Structural allocation shifts away from linkers could be distorting long-end pricing

ECB & Market Inflation Pricing



Large trade frontloading has supported Q1 EZ growth. Payback time ahead

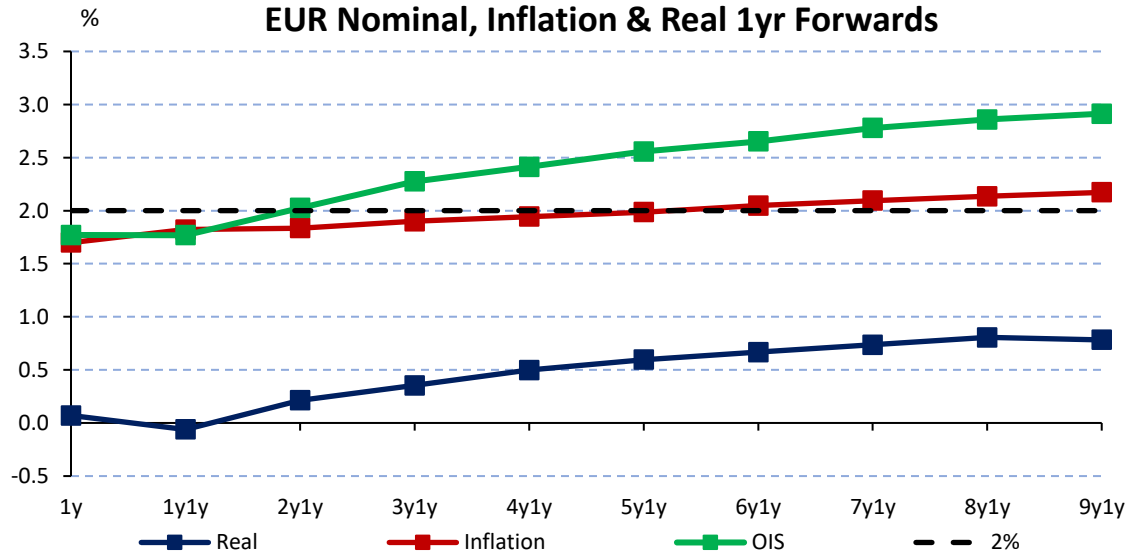
EZ Exports To The US



Source: US Census, Eurostat

Market pricing in rising real yields as nominal fwds rise faster than inflation.

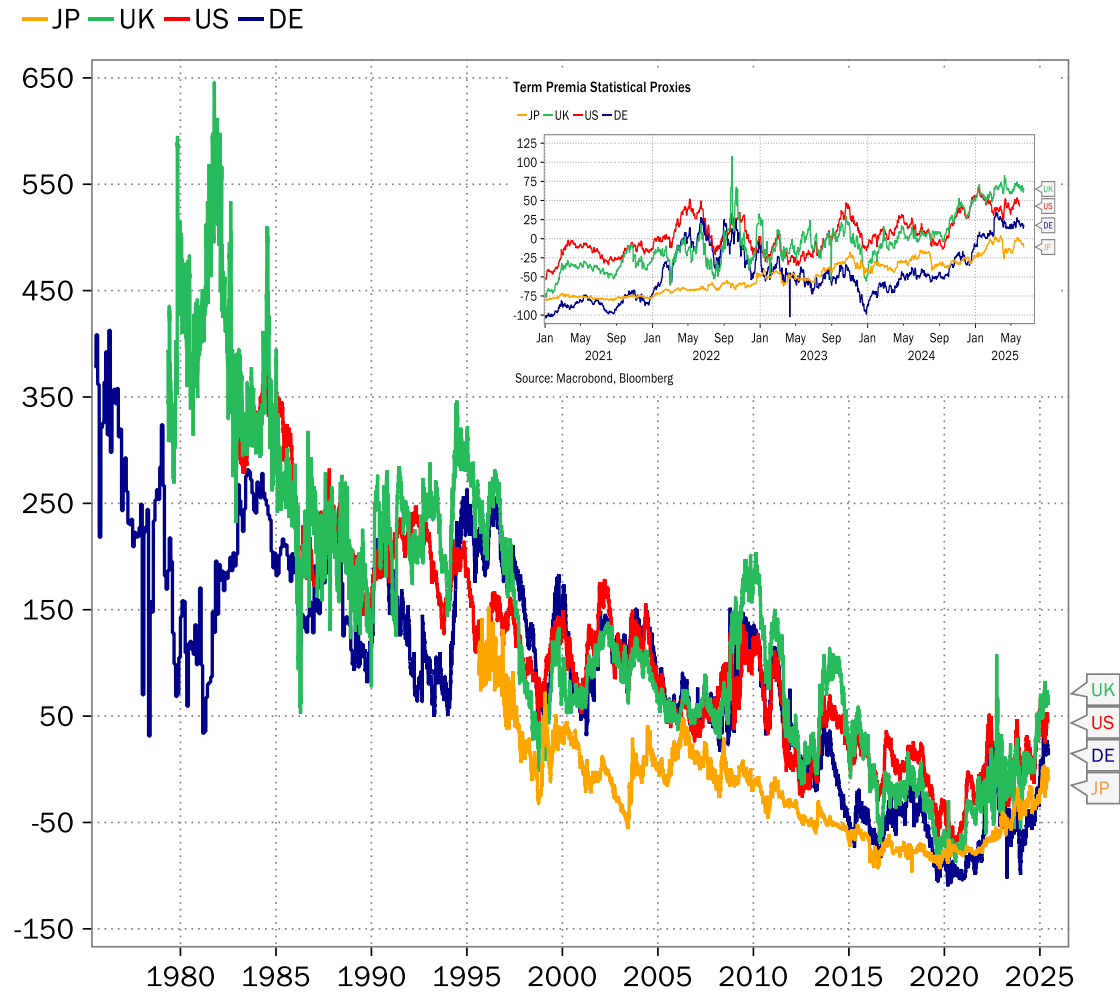
EUR Nominal, Inflation & Real 1yr Forwards



Net supply ex QE at multi-decade highs, with about 1/3rd coming from CB QT

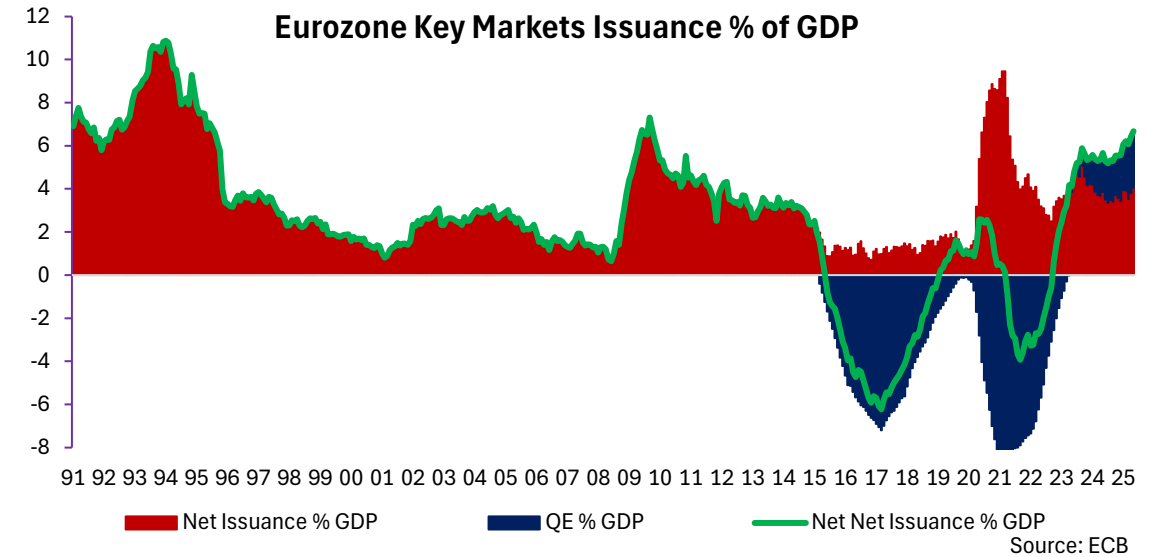
Term premia have risen fast, but still low compared to history

Term Premia Statistical Proxies

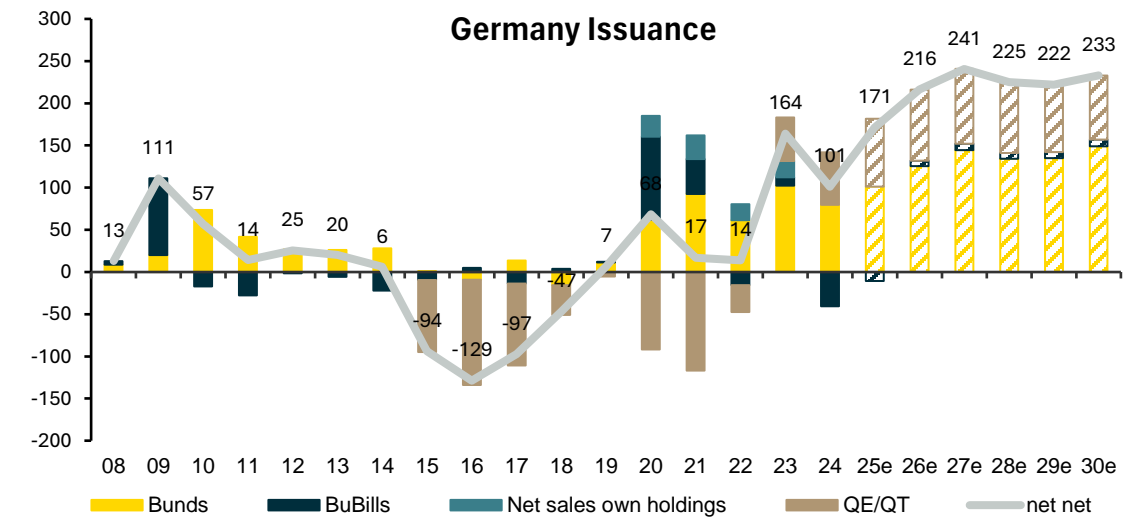


Source: Macrobond, Bloomberg

10pp of GDP increase in EZ's net issuance, the largest in 35 years



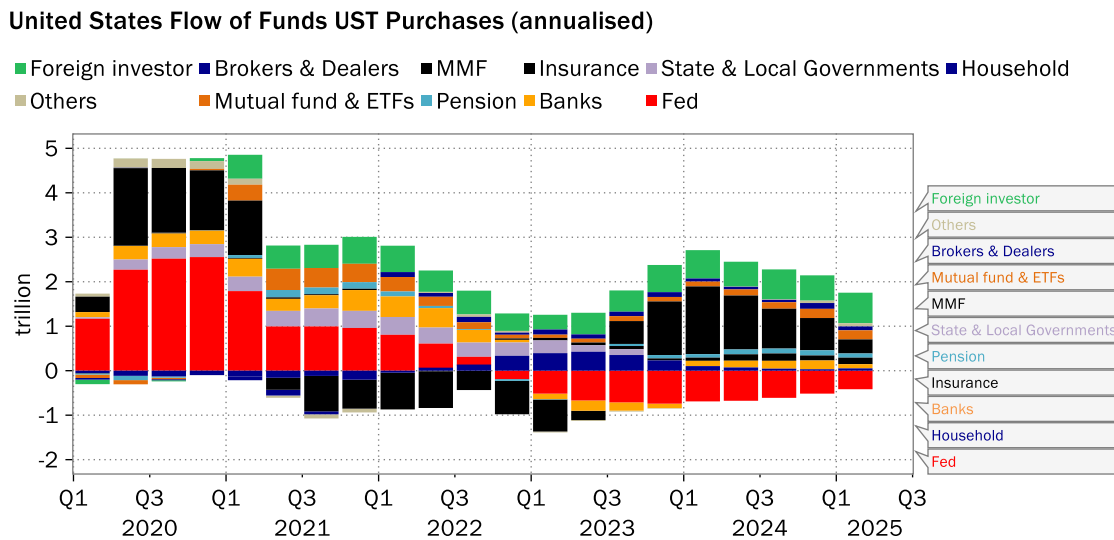
German net issuance ex QE from flat the past decade to EUR225bn per year



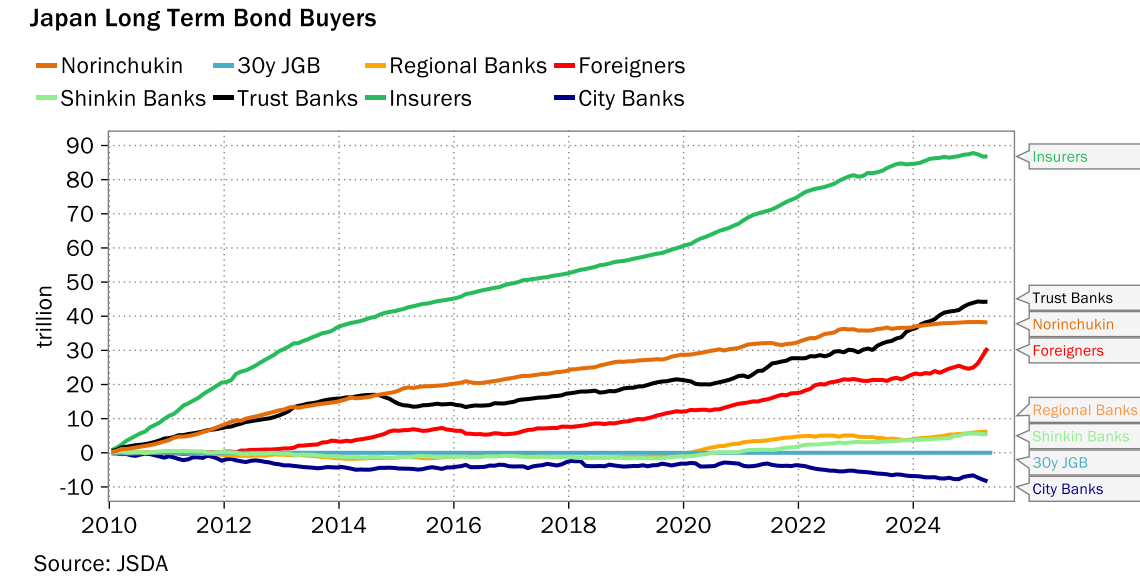
Source: Commerzbank

Foreign and price sensitive investors have been driving demand as CBs turned into sellers

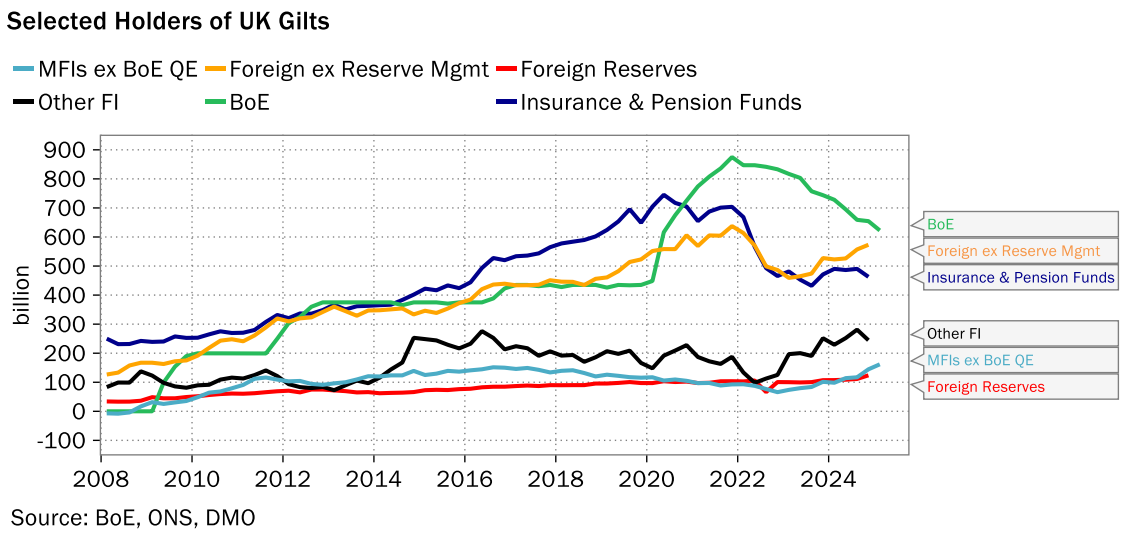
Foreigners and MMF have been buying while the Fed has been selling



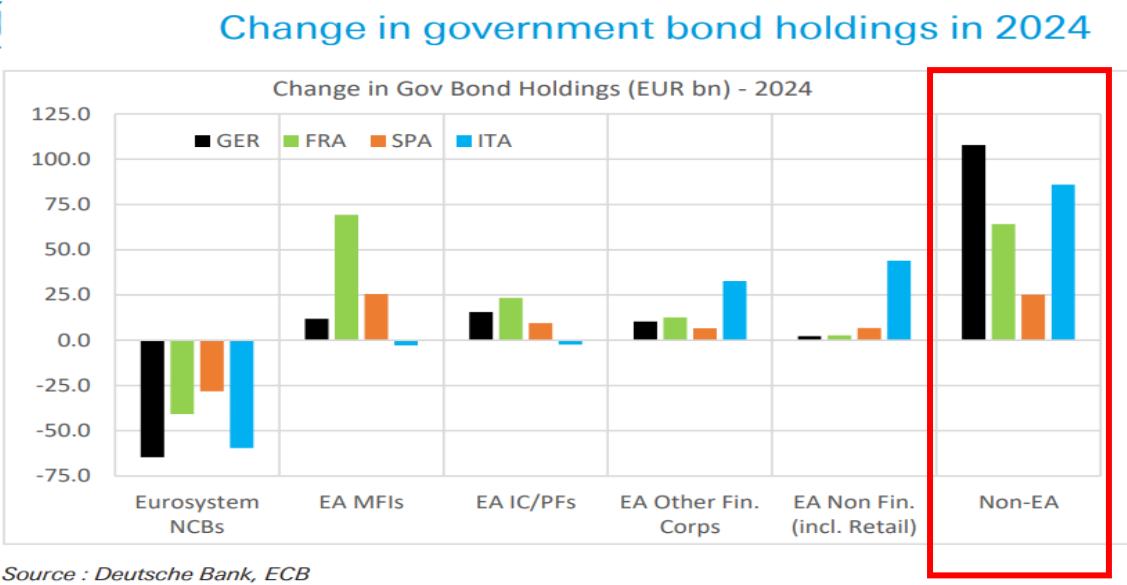
The Japanese long-end selloff coincided with when domestic insures stopped buying



UK LDI have reduced their exposure to gilts. Banks bought on asset swap



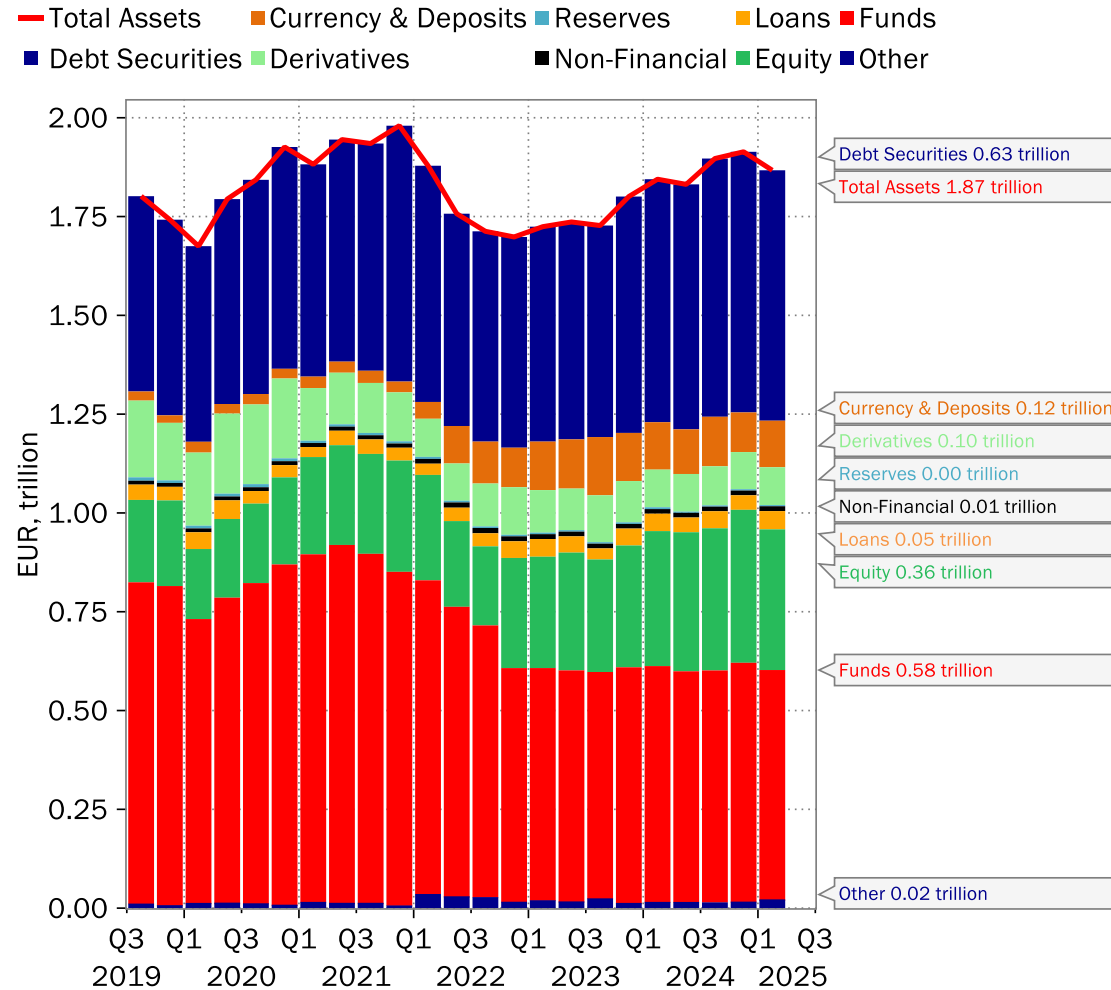
Foreigners have also stepped in to buy EGBs during QT



The Dutch pension reform could result in a structural shift in EUR rates demand

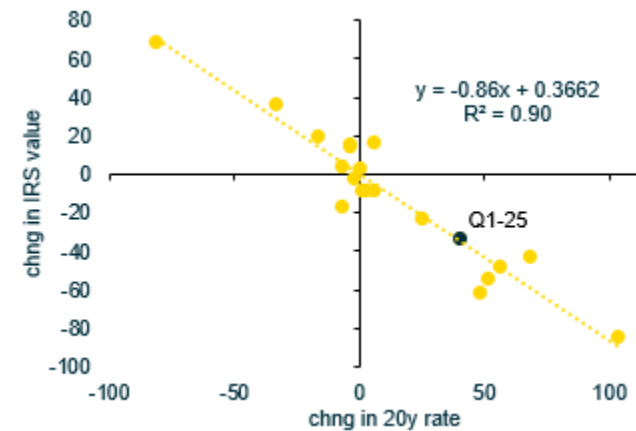
Significant part of the EUR1.9tn assets are allocated to fixed income

Dutch Pension Fund Assets



Source: ECB

Analysis on derivatives suggests large exposure to interest rates



During Q1, the net market value of the Dutch Pension Fund hedges fell by €33bn while the 20y increased by 40bp.

The DV01 of their derivatives book is still a €822mn, underscoring the potential challenges in completing the transition until Jan28.

Source: Commerzbank

IC & PFs own significant percentage of the core and semi-core govies

Q4 2024	GER	FRA	FIN	NET	AUS	BEL	IRE	SPA	ITA
Eurosystem NCBs	32%	24%	32%	32%	28%	23%	42%	31%	29%
Domestic MFIs	6%	9%	2%	3%	6%	5%	7%	16%	15%
Other EA MFIs	1%	5%	9%	6%	9%	8%	7%	9%	5%
Domestic IC/PFs	2%	12%	0%	17%	1%	8%	2%	9%	11%
Other EA IC/PFs	8%	8%	12%	4%	17%	21%	17%	9%	3%
Domestic Others	5%	2%	1%	1%	3%	1%	2%	5%	18%
EA Others	8%	8%	12%	9%	14%	11%	10%	9%	9%
Non- EA Residents	37%	31%	32%	28%	23%	22%	13%	12%	11%

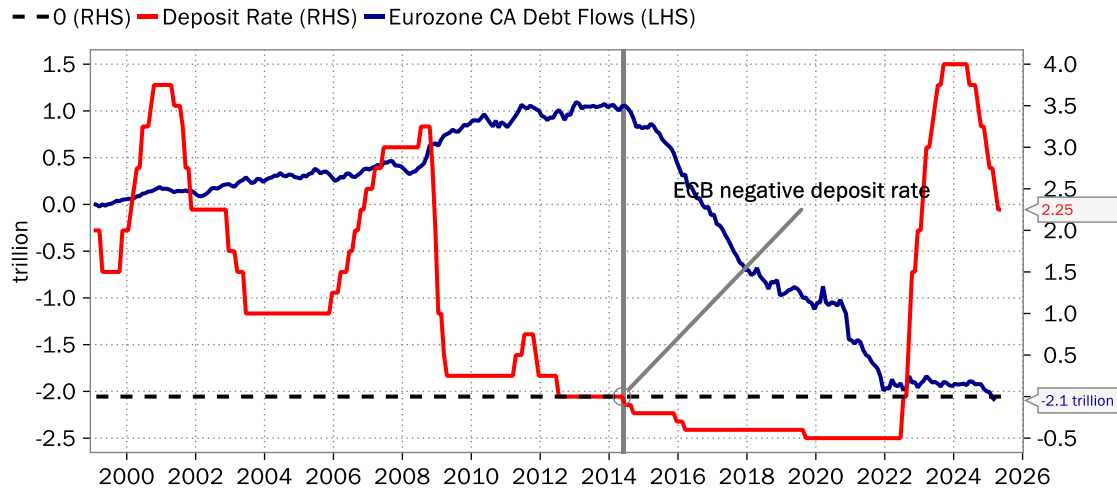
*Heatmaps apply vertically for each country separately

Source: Deutsche Bank, ECB

The Eurozone investors own large amounts of debt and equities abroad

EZ investors bought EUR3tn net of foreign bonds once rates went negative

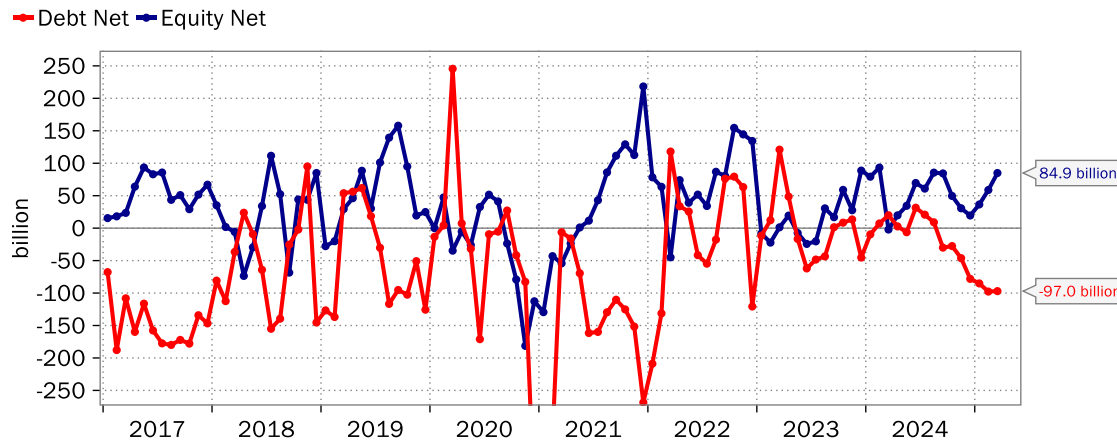
Eurozone Cumulative Debt Flows



Source: ECB, Eurostat

Following two years of stability, EZ investors started buying foreign bonds this year

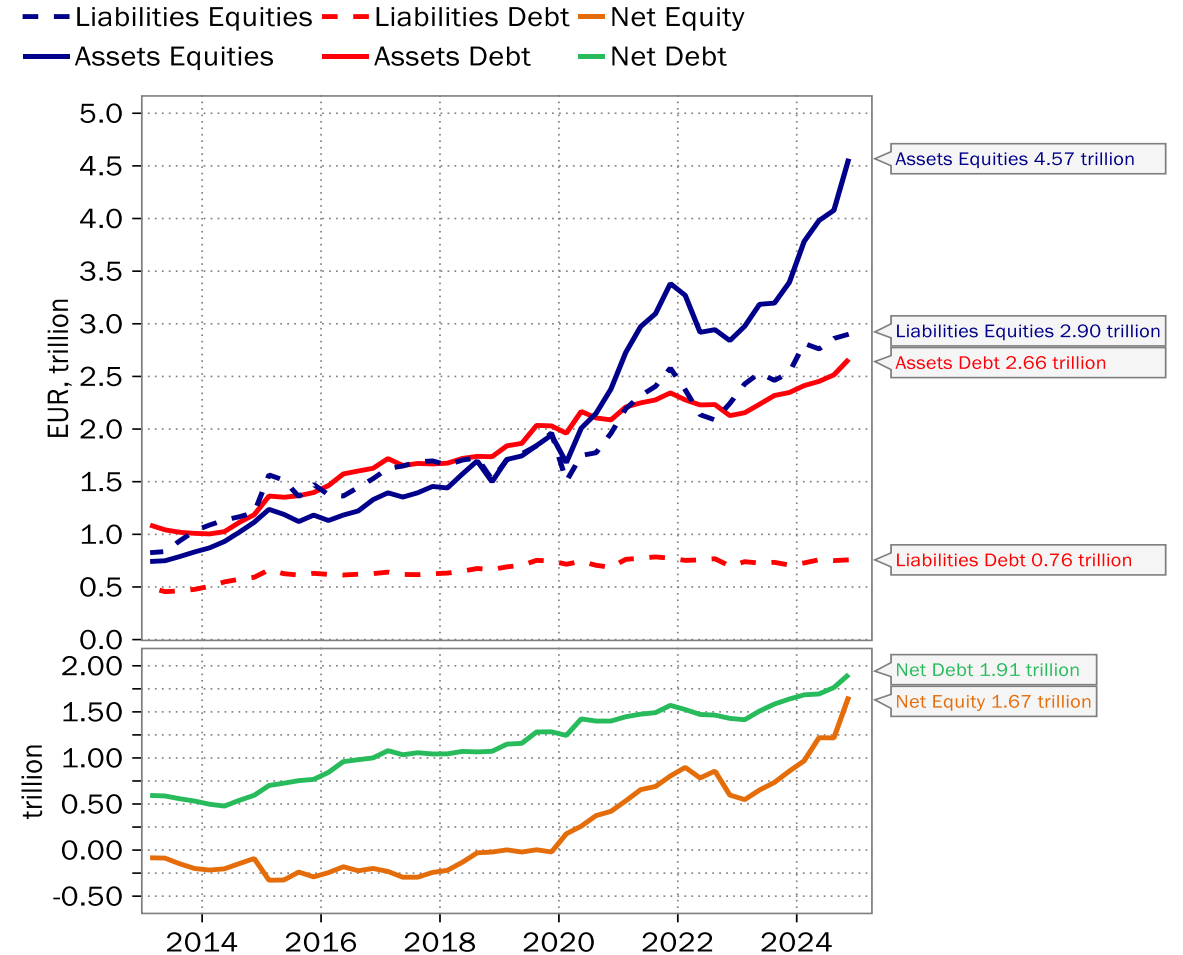
Eurozone Financial Account: Equities & Bonds Rolling 3m



Source: ECB

EZ investors own net 1.9tn of US bonds and 1.7tn of US equity

Eurozone Investment Position With The US



Source: ECB

Topics for discussion

- Dutch pension reform impact on European rates markets
- Risks of domestic investor base duration demand saturation (e.g. Japan)
- Real money investors' shifting strategic allocation from public to private fixed income