# Euro zone yields slip as ECB hikes rates but stresses data dependence - Reuters News

Updates prices at 1510 GMT, adds analyst comment

By Harry Robertson and Stefano Rebaudo

July 27 (Reuters) - Euro zone bond yields traded slightly lower on Thursday after the European Central Bank raised its benchmark interest rate to 3.75% and traders tried to gauge whether another hike is coming.

The ECB pushed its main deposit rate up 25 basis points (bps), taking rates to their highest level in 23 years. ECB officials have raised rates by 425 bps since July 2022 as they have tried to quell a surge in inflation.

Bond yields fell relatively sharply after the decision and during President Christine Lagarde's press conference, but later retraced their fall to stand only slightly lower than before the decision.

Germany's two-year government bond yield DE2YT=RR, which is highly sensitive to interest rate expectations, fell as low as 3.171%, from 3.241% before the ECB announcement. It was last down 4 bps at 3.229%.

Many analysts said they detected a dovish tone from the ECB and Lagarde.

"At the press conference, President Lagarde didn't give any explicit signals for another rate hike and strongly emphasized that it will hinge on incoming data," said Jussi Hiljanen, head of European rates strategy at lender SEB.

"At the previous meetings she had given explicit indications that more rate hikes shall be expected."

Lagarde said during the press conference: "Do we have more ground to cover? At this point in time I wouldn't say so."

"The assessment of data will actually tell us whether and how much ground we have to cover in September and at subsequent meetings."

Germany’s 10-year yield DE10YT=RR fell as low as 2.374%, from 2.431% before the ECB’s rate hike. Yet it later regained almost all of that lost ground to stand flat on the day at 2.454%. Yields move inversely to prices.

Investors also digested U.S. data which showed the economy grew faster than predicted in the second quarter and jobless claims unexpectedly fell last week. The U.S. 10-year Treasury yield US10YT=RR rose 10 bps to 3.954%.

The ECB's decision came after the U.S. Federal Reserve raised rates to a range of 5.25% to 5.5% on Wednesday and also stressed that it would now be data dependent.

Francesco Castelli, head of credit strategy at Banor, said that although the press conference was dovish, the ECB "is well aware that the battle is far from over and continues to profess its anti-inflationary commitment".

He highlighted that Lagarde said the ECB "will break the back of inflation, come what may".

According to prices in the derivatives market, traders see ECB rates peaking at around 3.92% in December this year, little changed from before the decision.

They see the chances of a 25 bps September rate hike at just below 40%, compared with around 44% previously.

The Italian 10-year yield IT10YT=RR last traded at 4.092%, down 2 bps on the day, compared to 4.101% before the decision.

The closely watched gap between Italian and German 10-year borrowing costs stood at 162 bps, 3 bps narrower than on Wednesday.

Germany's two-year yield hit a 15-year high of 3.393% this month but then fell after data showed inflation in the United States slowed sharply in June.

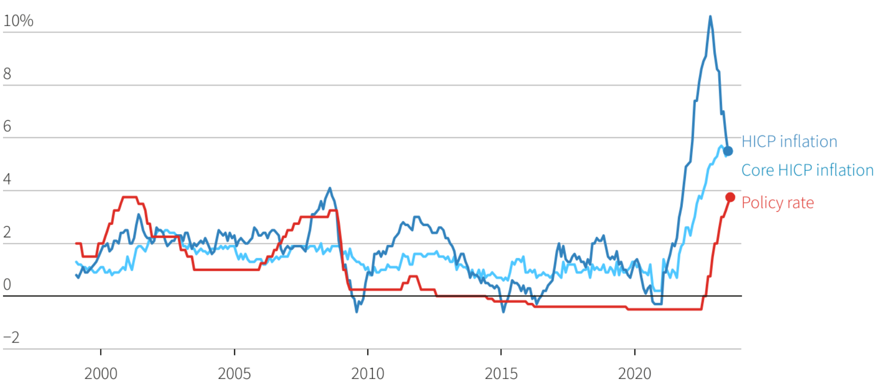
Weak Chinese economic figures also added to expectations that euro zone inflation might cool more quickly than expected.

Euro zone inflation fell to 5.5% year-on-year in June, from 10.6% in October - the highest in the single currency bloc's history.

Yet core inflation - which strips out volatile food and energy prices - has remained strong. It stood at 5.5% in June, down only slightly from March's record high of 5.7%.

### ECB hikes policy rate to historic high

The European Central Bank raised its policy rate by 25 bps to 3.75%, the ninth consecutive hike since the start of tightening cycle.

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