

Article | 3 October 2024

# Rates Spark: If 150k is delivered, we head for 4%

As usual, anything can happen on payrolls day. Often, even if we had known the number ahead of time, and took a position, it would be the wrong position. This one is on the cusp; the 150k expected is bang on neutral for the economy. But, if delivered, would be firm enough to suggest macro resilience. If we got that, the talk should be for 4% on the 10yr US yield



# We think the number will be weaker than anticipated. But if we get 150k, then the upside pressure for yields is sustained

It's payrolls day. And it really feels like this is a big one. The market has 150k as a baseline expectation for the September number. The whisper is lower, and we also feel it risks being lower. That's been the trend in the past five months where the outcome has been below 150k for four of those months, underpinned by other elements pointing to growing labour market weakness. At the same time, this week has seen a rise in job openings (to 8 million) and an ADP report showing a 143k jobs increase for September. It can shape up as a decent report based off that. Let's expand on that theme.

Article | 3 October 2024

If we were to get 150k, we'd be of the opinion that upward pressure on Treasury yields is liable to persist. We sent out a piece as the Fed cut by 50bp making the point that pressure to the upside for the 10yr yield is to the fore. It's <a href="https://www.nere.upw.nere.upw.nere">here</a>. We identified 3.9% as a target for the US 10yr, with a possible attack of 4%. We noted that the 10yr yield rose at the initiation of many of the prior ratecutting cycles, and we overlayed this with the notion that the Federal Reserve is in fact not behind the curve in any material fashion. Given that, pressure for higher yields was then, and has been since, in play.

We also asserted that the jobs number was the one that was liable to be pivotal ahead. We stick to that view. What is interesting is the dock workers strike, the Boeing strike and lay-offs coming from Hurricane Helene can impact the October payrolls report. In fact it could even go negative, partly depending on definitional issues and recording times. But that's for next month. For this month, the September report, the baseline market expectations is for a 150k payrolls outcome and a 4.2% unemployment rate. Should we get this or anything reasonably close to it, we're heading towards 4%.

The sting in the tail here is the risk that one of these days we get the surprise that many of us are bracing for. As mentioned this could well come at the subsequent report. But with payrolls, you just never know. It does not feel like this is the report that will confirm a labour market capitulation. Then again, that's why this report is so influential; as it is capable of surprise. And it will set the tone for the month ahead. Even though we are tactically bearish on Treasuries going into this report, we are also cognisant that practically every rate-cutting cycle ultimately sees a capitulation fall in the 10yr yield. That's more likely something for next month.

## Friday's events and market view

Key release the market has been working up to is the US jobs report. The consensus survey of economists shows a median estimate of 150k for the non-farm payrolls increase, but individual contributions are spread between 70k and 220k, reflecting a higher degree of uncertainty. The median expectation is for the unemployment rate to stay stable at 4.2%, though a good number also see a possible rise to 4.3%. The Fed's Williams and Goolsbee both have appearances scheduled for after the data.

While US data is clearly the main focus, eurozone markets will also have a number of European Central Bank speakers to digest over the early European session. Pushback against aggressive market pricing has been very limited so far.

Article | 3 October 2024

### **Authors**

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

**Benjamin Schroeder**Senior Rates Strategist
benjamin.schroder@inq.com

#### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit http://www.ing.com.

Article | 3 October 2024