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.

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 here. 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 rate-cutting 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.

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