

Rates Spark: Bank of England first cut is a reality

The 10-year US Treasury yield breached 4% for the first time since February, reflecting growing pessimism about the US economy. Meanwhile, the Bank of England has cut interest rates by 25bp to 5% but remains cautious about future cuts. Bund yields declined further, helped by the global trend lower



US rates down further, three cuts for 2024 priced in

The 10-year UST yield breached the symbolic 4% handle for the first time since February, marking growing pessimism about the US economy. Initial jobless claims jumped from 235k to 249k, well above the consensus of 236k. The Federal Reserve just last month predicted an unemployment rate of 4.0% by the end of this year, but with these numbers, we believe the risks are more skewed towards 4.5% or higher by December.

Alongside the bond rally, expectations for Fed cuts in 2024 hit 75bp, which means markets see room for three 25bp cuts this year. As the first cut will most likely become a reality next month, the 2-year UST yield should also start finding its way to 4.0%, thereby disinverting the 2s10s curve. The negative economic surprises have been piling up in the US and thus lower yields still seem the path of least resistance. Today's payrolls numbers are next to watch as more and more signs are

showing that the job market is facing challenges.

Bank of England cuts, markets undecided about next steps

The [Bank of England has cut interest rates](#) by 25bp to 5%, marking the first cut of the cycle, but remains cautious about future cuts. Markets are pricing in another 40bp of cuts this year, which is right between one and two more cuts. We think the BoE has room for two more cuts as services inflation and wage growth numbers will likely improve.

The impact on the curve was most pronounced on the short end, with the 2-year Gilt yield down around 13bp on the day. Compared to a week ago, markets now price in one additional cut over the next 12 months, mirroring the decline in yields in the US. The additional rate cuts being priced in do contrast a bit with the economic data from the UK, which has tilted more favourable than for the US and eurozone.

Decline in Bund yields amplified by global trend lower

Eurozone growth has managed to keep up so far, albeit poorly, but yesterday's [first rise in unemployment this year](#) should not go unnoticed. The European Central Bank sees household consumption as a source of growth, but a worsening labour market could threaten this. The current unemployment rate of 6.5% is still very low, yet soft data is also pointing at lower confidence about future hiring.

Bunds have joined the sharp decline in yields, whereby the 5-year point is around 20bp lower than last week. The lower yields cannot only be attributed to this week's eurozone macro data but should be seen in a broader global trend lower. Should the US payroll numbers confirm a deterioration in the US labour markets, then Bund yields will find it difficult to resist the downward global momentum.

Today's events and market views

US nonfarm payrolls will be the highlight, expected to come in at 175k, well below the previous 206k. After Thursday's data, the chance of a disappointment is considerable. Consensus sees the unemployment rate stable at 4.1% for now, but also here the risk is for a worse outcome.

Author

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.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 www.ing.com.