

## 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.

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