

Rates Spark: Bearish environment for US Treasuries

The Big Beautiful Bill passed in US Congress, putting even more pressure on the fiscal outlook and thus longer-dated USTs. US payrolls came in better than expected, contributing to higher yields across the curve. The ECB minutes show more members are concerned about undershooting inflation, keeping the 1.75% market-implied landing zone firmly intact



Fiscal concerns and better-than-expected growth provide bearish UST environment

The better-than-expected US jobs data jerked 10y yields some 9bp higher, and it put an end to any hopes that the Federal Reserve could cut rates in July. That probability was seen as high as 25%, but has now dropped significantly to near zero.

The One Big Beautiful Bill Act managed to pass through Congress and will now go to President Trump to sign. This bill includes a continuation of tax cuts that will further increase the already large fiscal deficits. The expected rise in issuance should put upward pressure on the curve from the back end and can further widen the spread between UST and the SOFR curves. Right now, the

fiscal picture benefits from low unemployment and reasonable growth. But we think markets are at risk of being too complacent about the signing of this bill, since the [fiscal trajectory remains worrying](#) in any case.

European Central Bank expectations remain firm

While the US data has taken the edge off near-term Fed cutting speculation, it has not really changed much for the European Central Bank, where the [minutes of the June meeting](#) revealed a Governing Council that is already concerned about the possibility of undershooting its inflation target.

The market, therefore, remained relatively firm in its pricing of another potential cut this year. The initial push higher on the back of the US data was quickly reversed, and a 25bp cut remains fully discounted by December, and there is a 50/50 chance that it could already happen in September. The latter remains our base case, provided there is no larger disruption on the trade front as we head into the deadline for deals set by the US.

Friday's events and market view

After this morning's releases of European industrial production data for May out of France and Spain as well as factory orders out of Germany, we will then only see the release of eurozone producer prices for May. ECB speakers today include Frank Elderson and Francois Villeroy. Elsewhere, the Bank of England's Alan Taylor will speak on neutral interest rates.

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