

Rates Spark: Blinkers on into payrolls

Some bearish impulses for Treasuries. It seems that Treasuries don't like the data fog, and with the payrolls delayed till after the December FOMC, there's a window of bearishness ahead



Two drivers for US Treasuries - both a tad bearish

First, we head into the (delayed) September payrolls report on Thursday with the market in a very tolerant mood for a weak number. Normally, if there was a market expectation for a number of about 50k it would be a huge miss relative to the clearing number of 150k. But that clearing number is acknowledged to be lower now, partly on account of supply-side shocks being applied to the labour market.

Also, with a new Bureau of Labor Statistics head in place (post the firing of the former one), there is likely a tendency to come out with a conservative estimate for employment numbers, to avoid the downward revisions that have plagued previous versions. This Treasury market would take a 50k jobs growth number all day long as indicative of an economy that's remaining reasonably resilient (even if deemed vulnerable). At the margin, this is a bearish impulse for Treasuries.

Second, the release of the payroll numbers for November has been delayed till after the December FOMC meeting (incorporating October). This gives the Federal Reserve an out to skip a rate cut, due to the "fog" as described by Chair Powell. The FOMC minutes from the previous meeting note that many members are not sold on the December rate cut, but that's no surprise, as that is as Chair

Powell explained at the press conference from that meeting.

Overall, the Treasury market has chosen to trade quite heavy through the "driving through the fog" period, typically being more responsive to firm data than to weak data. So, at the margin, this is also bearish for Treasuries.

Thursday's events and market views

The US will release the delayed jobs data for September, where the consensus is looking for a payrolls' growth of 50k and an unemployment rate of 4.3%. The other releases for the day will be the October existing home sales as well as the Philadelphia and Kansas Fed's November manufacturing indices. Fed speakers for the day will be Hammack, Barr, Cook, Goolsbee, Miran and Paulson. Markets will scrutinise their comments for any hints on the timing of the Fed's potential next cut given the revised data release calendar from the Bureau of Labor Statistics.

In terms of issuance, we have Spain with 7Y, 10Y and 30Y SPGB auctions for a total of €5.5bn. France will auction 3Y, 5Y, 6Y and 8Y OATs amounting to €12bn, and in addition 11Y, 15Y and 28Y OATe for €1bn. From the UK we have a tender for a 27Y Gilt linker (£0.3bn) and from the US a 10Y TIPS for \$19bn.

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