

Rates Spark: Data continues to cement September Fed cut

US payrolls numbers were revised down by 818k, which is a lot but within the range of economists' estimates. Overall, the UST curve bull steepened. Today, wage data and PMIs in the eurozone will help euro rates find direction independent of the US



US payrolls lowered in line with expectations

The provisional [revision of US payrolls](#) suggests 818k fewer jobs were created than initially calculated, which was in line with some of the estimates out there. The market reaction was choppy, but eventually, the 2y UST yield led the decline and closed some 6bp lower than the day before. At the same time, equities drifted higher and thus a broader risk-off event was averted. July's FOMC meeting notes published later in the day showed broad support for a September cut if the data continues in the right direction and therefore did not prevent the front end from closing the day lower overall.

The 10y Bund yields seem to find resistance at 2.2%, which is well below the high from July of 2.6%. Lower rates spilled over from the US, where growth concerns have been on the rise. Markets now price in 69bp more European Central Bank cuts in 2024, which is just shy of three 25bp cuts. The September cut is now priced at exactly 25bp but has touched higher this week, thereby

playing with the idea of a 50bp cut too.

Today's data important to set direction for eurozone rates

In our view, PMIs today are unlikely to show a clear growth revival for the eurozone and consensus has also turned more pessimistic, with only very minor improvements expected. More important will be the ECB negotiated wage indicator for the second quarter, which is a key ingredient for the ECB's cutting cycle. We see a risk that negotiated wages will turn out stickier than hoped, which puts pressure on the ECB's inflation projections.

Given that the rally in Bunds over the past weeks was strongly US-driven, euro rates could retrace some of those gains if negotiated wages do not show the looked-after improvement. The terminal ECB rate priced in by markets is now around 2%, which seems pessimistic as this would translate to a real rate of zero with an inflation target of 2%.

Today's events and market views

Plenty of PMI data is set to be published today, including for the eurozone, the UK and the US. From the eurozone, we have consumer confidence coming in, which is expected to improve just a tad. From the US we also have weekly initial jobless claims which will be watched given the focus on the labour market.

In terms of notable issuance, we have the US auction of \$8bn of 30y TIPS.

Authors

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

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