

Rates Spark: Heavy man

Fed Chair Powell's reticence to cut in December remains a driver of sentiment. Nevertheless, Treasuries are interpreting the various crosswinds as supportive of a rise in yields. We don't think the Bank of England will cut, but markets are not fully convinced. Gilt yields have little room to move lower as the Budget risk premium has already fallen



Chair Powell has let the market know that the FOMC does not see a December rate cut as anything near a certainty

US Treasuries continue to trade heavy in price, with a Powell echo impactful

There were no surprises from the US quarterly refunding announcement on Wednesday 5 November, maintaining essentially the same issuance pace as in previous quarters. And there's an implied promise to keep it that way for the foreseeable future. That means that bills will continue to do the heavy lifting should higher net issuance be required, which is anticipated again in early 2026. Bills already account for some 20% of US debt financing, compared with a preferred 15% level.

Also on Wednesday, we had the ADP 4-week moving average, which came out firmer than expected, at 42k. The number itself is not strong (the long-run average is around 160k) but the market has convinced itself to expect weaker jobs growth, especially with dampening supply-side

factors in play (e.g. non-visa holders out). It came in better than the market had expected by some 12k, and the previous month was revised up slightly.

Treasury yields climbed, reversing earlier declines that followed various mayoral election outcomes. But the overall nudge pressure is up for yields, a theme that we've seen since Chair Powell let the market know that the FOMC does not see a December rate cut as anything near a certainty ("far from it"). This, of course, partly reflects the "driving in the fog" metaphor for the government shutdown, but also with a dose of inflation concern and a pinch of risk-on ebullience that could do with some calming.

The latest ISM data for October also came in firmer than expected. In fact, everything was up, including prices. The only laggard was employment, which appears to be a tolerable miss these days as equity markets recovered from their early week blues. Treasuries continue to feel price heavy against this complicated backdrop, with the 10yr yield having ratcheted up to the 4.15% area. That break below 4% theme seems a distant memory at this point.

Only a big dovish surprise would help 10Y gilt yields lower from here

We don't think the Bank of England will continue easing at this [meeting](#), but we do now see a high chance of a cut in December. Markets remain divided about the BoE's next steps, with a 25% probability of a cut today. Part of the uncertainty relates to the [upcoming government budget](#), which will be announced on 26 November. Large spending cuts or big tax hikes could weigh on the front end of the curve further. On the other hand, inflationary tax hikes, such as VAT, would challenge the dovish mood. In our base case, however, we don't expect any surprises that would warrant a material repricing of the Bank of England.

The room for 10Y gilt yields to move lower from here is therefore limited, especially since the risk premium has already come down significantly over the past month. We estimate that the risk premium peaked at around 25bp in early October and is now closer to 5bp. This suggests that the worries about the upcoming budget have eased, and fiscal discipline is the baseline. And now that markets have also turned more dovish on the Bank of England, we see little room for 10Y gilt yields to move lower from here.

Thursday's events and market views

The highlight will be the Bank of England meeting for which markets still see a non-negligible chance of a rate cut. In terms of data, industrial production numbers for both Germany and Spain will be released. From the eurozone, we'll see retail sales numbers for September, whereby consensus sees a slight nudge lower from 1.0% YoY to 0.9%. Due to the US government shutdown, we won't receive productivity or jobless claims data, but we do have Challenger job cuts figures as an alternative to gauge the jobs market.

We have plenty of central speakers scheduled to speak. From the ECB, we have Schnabel, who will kick off the day talking about money markets. With global [liquidity conditions tightening](#), we're interested to hear how this could affect ECB policy. Other ECB speakers include Guindos, Villeroy and Lane. There's also a long list of speakers from the Fed, including Williams, Barr and Waller.

In terms of supply, we have Spain with 7Y, 10Y and 15Y SPGBs, plus an 11Y SPGBei, together

totalling €5.75bn. France will auction 10Y and 17Y OATs with a 24Y green OAT for €11bn.

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