

## Rates Spark: Service sector oomph

We continue to view the dominant market tilt as one point towards upward pressure on market rates. Resilience is the simplest explainer. It will give eventually, but has not done so as of yet. The latest US ISM services report pushes in the same direction



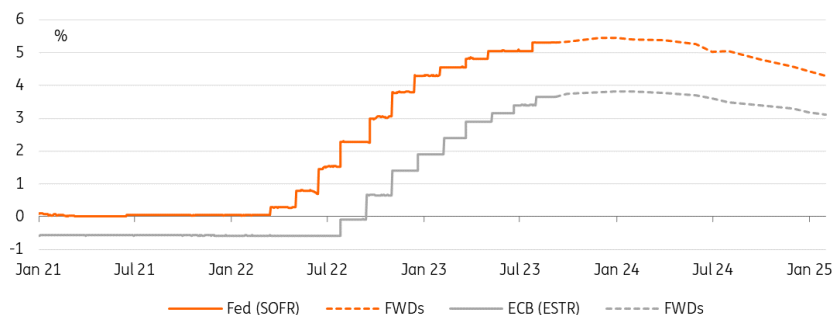
### Another ratchet up in US Treasury yields, and for good reason

Another leg higher in US Treasury yields, this time driven by [ISM services](#). New orders and prices paid in the high 50s were the standout contributors. An interesting outcome was the re-inversion of the curve as the front end began to raise the discount for one more 25bp rate hike. It's still priced for no further hikes but has moved closer to a balanced probability. A more neutral to downbeat Beige Book later in the day tempered enthusiasm, but not by enough to materially take yields off their highs. It still appears to us that the marketplace is not getting a green light to re-test lower, and we continue to read the path of least resistance as pointing higher for market yields.

The market discount for the funds rate is now up to 4.3% for January 2025. Remember that was at 2.5% when Silicon Valley Bank went down in March this year. The market continues to discount rate cuts, but nowhere near to the extent they once were. The US 10yr Treasury yield is also at 4.3% and does not look wrong there. There is still a greater likelihood that it heads to the 4.5% area than the 4% one in the weeks ahead. Ultimately there is much more room to the downside

for yields when something actually breaks, but for now, things are very much holding together – or at least there is enough constructiveness in the service sector to support ongoing elevation in official rates and market yields.

## Resilience keeps the Fed discount elevated



Source: Refinitiv, ING

### Today's events and market views

The goldilocks scenario is a narrow path; things can easily break precipitating a sharper downturn, or stay too hot and keep inflation elevated. The services ISM moved the needle a little to the latter scenario, bear flattening the curve as markets also pushed the implied probability for a Federal Reserve hike before year-end to 50%. The Fed Beige Book however was more downbeat, arguing for a Fed pause this month.

Today's calendar features the weekly initial jobless claims data, a more contemporaneous read of job market conditions than the payrolls data. Markets will also be confronted with another busy slate of Fed speakers.

In Europe, we will get the final reading for second quarter GDP growth. The list of scheduled European Central Bank speakers is long, but the black-out period has started. Yesterday Klaas Knot suggested markets were underestimating the chances for a hike this month, nudging rates higher to now discount a one-in-three chance.

A greater focus will be on the Bank of England publishing the results of the decision-maker panel survey on price expectations. Yesterday Governor Andrew Bailey remarked the Bank was probably "near the top of the cycle", causing markets to pare their hike expectations. Two more hikes are fully priced, but we think chances still are we get one less.

In government bond primary markets, France and Spain will be active with auctions.

## Authors

### **Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

### **Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

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