

## Rates Spark: No payroll surprise please

US payroll numbers have continuously surprised expectations to the upside, yet soft data keeps pointing at a weakening labour market. A consensus reading or lower would help build a Fed cutting narrative for September, helping both US and euro rates to fall. The French election outcome is unlikely to stir markets as tail risks have faded



### US payrolls could confirm labour market weakness

Most soft data hints at a significant deterioration of the US labour market but the nonfarm payrolls numbers keep surprising markets with their resilience. Today the number is expected to come down to 190k from a previous reading of 272k. But then again, the consensus for the last reading was only 180k. When looking at historical relationships with ISM data, the figure would actually have to be negative for consistency. As inflation numbers are coming down, bond markets are likely to see a consensus or lower reading as not standing in the way of lower yields.

### Looking beyond payrolls we see the US CPI

Looking ahead, on Sunday the French will vote in the second and final round of the parliamentary elections. Marine Le Pen will come out as the clear winner but obtaining an absolute majority will prove difficult. A hung parliament is more likely and thus the country's fiscal challenges won't be solved overnight. The risk premium in broader euro markets has started to revert to normality as

the tail risk has been priced out and is unlikely to move much on the election outcome. French bond spreads, however, will likely continue to trade wider going forward.

Wednesday's US CPI figures for June will be the next data points to watch. Consensus sees a 0.2% month-on-month reading for core CPI which is enough for the Federal Reserve to think about cutting. The PPI number the day after is also important given its shared components with the PCE, the Fed's preferred measure of inflation. Besides the data, the rumours surrounding Biden's candidacy could provide some background noise.

If the data, including today's US payrolls, continues to point towards a weakening US labour market and lower inflation, then we see the narrative for a September cut build up further. UST yields should come down, with the 10Y point back down to 4.0%. Also, euro rates will follow, lowering Bund yields, albeit to a lesser extent. The 10y swap rate at around 2.7% is only marginally above the soft threshold of 2.5% where we see the terminal rate for the European Central Bank, limiting the scope for euro rates to go much lower.

## Today's events and market view

The key data point is the US jobs report. Payrolls are expected to grow by 190K with Bloomberg's whisper number this time not far below at 186k. Our economists look for 175k, but individual estimates range from 140k to 237k - all below last month's surprise 272k figure. Given that surprise, revisions will also be scrutinised again with lingering doubts about the quality of the data. The unemployment rate is expected to stay at 4%, but we economists will also be looking into the household survey for insights around the quality of jobs created, i.e. part-time versus full-time jobs. The eurozone will be looking at retail sales data.

Markets will be digesting [the UK election results](#) but given that the outcome of a Labour majority was set in stone, markets are unlikely to show a change in direction. Some fiscal uncertainty looms so Gilt markets will be watching Labour's plans in the coming weeks.

There is no government bond supply scheduled for today, but focus will soon turn to the US Treasury selling 3Y, 10Y and 30Y paper next week with some of the steepening earlier this week attributed to prospects of Trump winning and its fiscal implications. Eurozone government bond supply next week should be below average, but we will have the EU in the market with a scheduled syndicated deal.

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