

Rates Spark: PMIs mostly better than expected

PMIs showed more upside than downside surprises but Germany's data continues to deteriorate. Eurozone growth does not call for sharp rate cuts, yet cooling wage growth makes the ECB's job a bit easier. UK economic data continues to surprise to the upside keeping Gilt yields elevated. Markets will listen to Powell speak at Jackson Hole



Eurozone seems to be doing fine, except for Germany

Eurozone [PMIs came in stronger](#) than the pessimistic consensus estimates, pushing yields higher and retracing some of the gains in previous sessions. Wage growth numbers from the European Central Bank were [better than expected](#) too with the second quarter figure just 3.6% compared with the previous reading of 4.7%. But the better growth data seemed to lead markets and since the September ECB cut is already fully priced in, the wage data did little to prevent yields from going higher. US initial jobless claims coming in right in line with consensus helped to mute worries of a sharply deteriorating labour market.

The problem that remains is Germany. Again PMIs disappointed and a manufacturing component of 42.1 does not look pretty. The German weakness helps the ECB's case to continue cuts, especially now that wage data is also lining up. A September cut seems certain, but markets are still undecided about two or three more cuts this year. At the moment, growth numbers by

themselves do not seem to justify a consecutive cut in October, so inflation numbers will have to give in.

UK growth continues to surprise keeping Gilt yields high

UK PMIs managed to edge even higher than the already elevated levels. The UK composite index came in at 53.4, well above the eurozone number (51.2) and just a notch below that of the US (54.1). Gilts are taking note of the economic outperformance of the UK, with the Gilt-Bund spread now around 170bp, looking stretched compared to a 20-year average of just 90bp. Of course, the question is whether the economy can keep that momentum while the US and eurozone economies are decelerating.

Today's events and market views

Federal Reserve Chair Jerome Powell will speak at the Jackson Hole symposium, which is something rates markets have been looking out for the entire week. The FOMC minutes this week revealed a willingness to start with cuts, but we'll be listening for more nuances in Powell's forward guidance. In terms of data, we have ECB CPI expectations, but given these have been well-behaved we doubt markets will pay much attention to the numbers. In addition, we have US new home sales numbers, which are expected to have nudged up in July.

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