

Rates Spark: The payrolls lottery

The US jobs report is the key event to which rates markets have been building up – it will be crucial in determining the direction of markets ahead. But it appears that rates markets have been setting themselves up for a weaker figure than the economists' consensus. The ECB firmed up June cut expectations, but still needs to see more evidence on the progress



Today's US payrolls report will be crucial in determining the direction of markets ahead

The US payrolls lottery will determine direction

US yields continued to edge lower as data came in on the softer side, and a European Central Bank jobs-driven dip took the 10Y yield briefly down to 4.05% before returning above 4.1%. But in general, the downward drift was maintained.

The data that pushed yields lower was the Challenger report, which showed lay-off announcements increased again in February and initial jobless, which were unchanged at 217k versus last week though with continuing claims rising to 1906k. As our economist noted, these figures are unlikely to have much impact on the consensus for the upcoming official payrolls numbers, which seem to have a life of their own. Tracking the available labour market indicators would point to a weak jobs report, but there has been a tendency for it to surprise on the upside in a big way.

A report this Friday in line with the 200k consensus for the nonfarm payrolls increase would certainly keep the Fed in its holding pattern and imply that rates remain vulnerable to upside moves. Especially if one considers that next week could show month-on-month core CPI still at a relatively hot 0.3%. [What rates need to really move lower is a weak number of say 150k or below.](#)

The ECB holds, but will know more in April, and a lot more in June

Market rates dipped with the ECB adjusting its growth and inflation forecasts lower, with 2025 headline inflation now at 2%. While this [suggests the ECB is getting closer to cutting rates](#) and ECB President Christine Lagarde also acknowledged the progress that has been made, she also emphasised that the ECB is not sufficiently confident yet. She pointed out underlying inflation, mostly driven by the labour-intensive services segment, as an ongoing concern. More evidence on progress is needed, but the ECB will know "more in April, and a lot more in June."

Market expectations for the June meeting firmed up marginally while the discount for easing over this year increased modestly from around 90bp toward 100bp. Further out the curve, the 5bp dip in 10Y Bund yields on the back of the policy statement and forecast update unwound with the press conference – the ECB is still in the "holding season".

On the matter of the ECB's operational framework review, Lagarde confirmed earlier press reports that an announcement could be made as early as 13 March. It should then also include an announcement on the minimum reserve requirement.

Today's events and market view

The key event which rates markets have been building up to is Friday's US jobs report. It will be instrumental in determining the direction of markets ahead, but it appears that rates markets have been setting themselves up for a much weaker figure.

The economists' consensus is for a still very robust 200k nonfarm payroll increase following the big 353k upside surprise for January. While the consensus is looking for an unchanged unemployment rate our economist thinks that it could tick up to 3.8%. The drop back of average hourly earnings growth to 0.2% on the month should be an expected correction of a weather-related increase in January.

Also worth watching are any final Fed comments ahead of the pre-meeting blackout period that starts with the weekend.

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