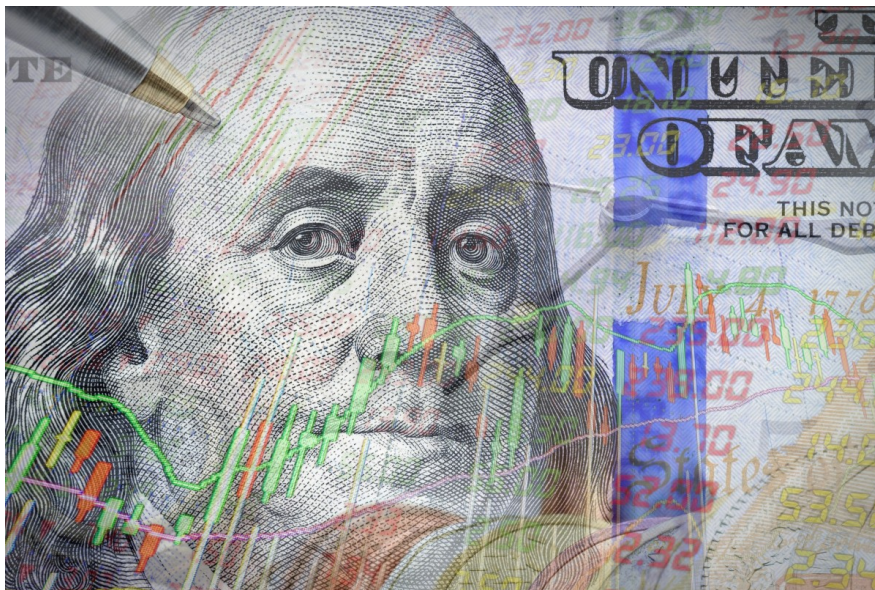


Rates Spark: This time US rates can take the lead again

Worries about the US jobs market help global curves flatten again. Despite a softer US macro backdrop, equities remain strong. For stronger spillovers from the US to euro rates, we would need a broader risk-off move. We will therefore watch the US payrolls closely. Having said that, more Fed rate cuts may actually support the positive mood music in equities



US rates are taking the lead as EUR rates followed the bullish mood in US Treasuries

US rates take the lead as focus returns to jobs numbers

US rates are leading again in global rate markets, and the focus is back on a cooling jobs market. The ADP numbers came in softer than hoped and retail sales for December stayed flat, suggesting the consumer is not helping growth. The more downbeat economic outlook flattened the back end of the curve, with 30Y UST yields some 7bp lower. On Wednesday, we have the delayed US payrolls data, which could again challenge market positioning. Government officials over the past few days have warned that one should expect lower jobs numbers going forward, adding to the shift in sentiment. A worsening US macro outlook does not, however, seem to faze equities and the S&P 500 keeps hugging record highs. Once again, we're reminded of the K-shaped economy, whereby strong gains in AI are in stark contrast with the worsening picture for middle and lower-

income Americans.

This time, EUR rates followed the bullish move in US Treasuries which has taken the 10y Bund yield to the very low end of this year's range at 2.8%. But overall the correlation remains weak between the two markets. The eurozone is still facing an improving growth path with more fiscal stimulus ahead. Inflation is at target, but with some concerns about undershooting. Meanwhile, the US faces a cooling economy, but inflation is still on the hot side. These different narratives reduce the spillovers from the usual macro data releases.

The spillovers from the US to euro rates are strongest when risk sentiment is involved, which still seems a tad fragile. Markets are turning more wary about the level of AI investments. Although having said that, so far the NASDAQ is also still close to this year's record highs. If the macro picture keeps deteriorating, we might even have a situation where the Fed cuts more than anticipated, which could actually benefit tech stocks and keep the positive mood music going. Therefore, a large equity correction is not our baseline but nevertheless something that could make a bullish case for global bond markets.

Wednesday's events and market views

From the eurozone we start with the wage tracker, which remains a key piece of information for the ECB's monetary policy decisions. Wage growth seems to be behaving well of late, but with tight labour markets, we continue to monitor this closely. From the US, the highlight will be the delayed nonfarm payrolls for January. Consensus sees a 70k increase, which would be above the prior reading of 50k. The unemployment rate may be watched even more closely but is expected to stick to the current 4.4%.

In terms of central bank speakers, we have Schnabel from the ECB talking about Europe's economy and from the Fed we have Schmid and Bowman speaking.

Markets have plenty of supply to digest. France has announced a 30Y OAT syndication for an estimated €8bn and Slovakia a 20Y SLOVGB syndication for €1.5bn. Germany will be issuing 29Y and 31Y Bunds totalling €2.5bn, and the UK has a 3Y gilt tender for just £0.3bn. Lastly, we have the US with a \$42bn 10Y Note.

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