Rates Spark: Treasuries ranging but poised for a breakout

We could be in this 4% to 4.1% trading range (US 10yr yield) for a bit before we break out. We'd view a break below as temporary (perhaps into the turn of the year), and a break above as more structural, certainly something for 2026

We think the 10yr US Treasury yield will remain around 4.2%

Treasuries love that 4% to 4.1% trading range. Temporary break below more likely. But break above has more legs

The US ADP employment report printed negative for November, at -32k. It also printed negative in September, August and June this year, whereas there were no negative prints last year. Things have certainly slowed. But Treasuries have built a bit of resilience to the weak jobs narrative. Partly as there are fewer immigrants coming into the country in net terms, requiring less employment generation. But also as its productivity growth rather than employment growth driving things into the future (AI, among others).

The 10yr yield was lower ahead of the data, and despite the above caveats, this ADP number should have given it a further push lower. But instead it held (at around 4.06%). Import prices also came in for September (a bit of a lag) – very subdued; statistically zero (or close to) whether month-on-month or year-on-year. At least the tariff risk is not being exacerbated by higher import prices. Export prices were up to 3.8% though – that's the highest rate in about three years, but nowhere near as high as the 15+% rates we saw in 2021/22. Overall, these are mostly second-tier data, and do not have a huge impact on levels. Industrial production data and ISM services came in too, but to little effect.

The issue here is a market lacking a good enough reason to break below 4%. And at the same time, there's a reluctance to push on higher above 4.1%. Friday's PCE data might give the sub-4% camp a boost, especially if we were to get a 0.1% MoM outcome (not impossible). On the more likely 0.2% outcome, we'll then roll on into next week and the pre-FOMC run-in. The Challenger report on Thursday is another big one, potentially. But last month's big layoffs were in the end negated by low jobless claims right through that month.

We could be in this 4% to 4.1% trading range for the 10yr yield for a bit before we break out. We'd view a break below as temporary (perhaps into the turn of the year), and a break above as more structural (certainly something for 2026).

Thursday’s events and market view

Out of the eurozone, in terms of data, we will only get the retail sales figures for October. With Kocher, Lane, Cipollone and de Guindos, there are again a number of European Central Bank members scheduled to speak.

Key focus will remain on US job market indicators. We will get the Challenger job cuts numbers as well as the weekly jobless claims figures. The latter have so far painted a relatively benign picture, contrasting with the job cuts signalled by the ADP payrolls data, for instance. While the Fed is in its pre-meeting communication blackout, Bowman is still slated to talk about bank supervision and regulation.

In terms of issuance, Spain and France will conduct their final bond auctions for the year. Spain will sell 4y and 12y bonds as well as 11y inflation-linked bonds, for a total of up to €4.25bn overall. France sells longer bonds from 10y out to 30y maturities for a total of up to €5.5bn.

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