

Rates Spark: US growth pessimism drives yields lower

US yields have been falling for four days straight on growth pessimism. Bund yields have been dragged lower too, but have less room to fall much further from here. Friday's US payrolls will be an important data point to watch, but with yields already down significantly markets are already positioned for a disappointment



US downbeat growth expectations are dragging global yields down

The momentum of global yields continues downwards as markets turn more pessimistic on the growth outlook in the US. Yesterday's JOLTS Job Openings data was closely watched and came in well below consensus, causing some volatility around the release, but the net change in yields from the data release remained minimal. Perhaps the better factory orders release, which was published at the same time, offset some of the expected decline but we think that rates markets are simply already prepositioned for a worsening of US economic data.

This was the fourth day of declining 10y UST yields, bringing it down from around 4.6% to 4.35%. On Friday, the US will release nonfarm payroll figures, which our economist expects to show more

signs of weakness. Since yields have come down already significantly, we see an increasing risk that yields may edge back up if payroll figures are not as weak as priced for. With inflation numbers still too hot for the Fed to feel comfortable with cutting, we also do not think a payrolls number that does not significantly deviate from the consensus should be a strong enough catalyst to break below the 4.3% mark for 10y UST yields.

Yesterday, we highlighted the currently tight correlation between UST and Bund yields, but looking forward we do not think Bund yields have much more room to fall. The 10y Bund yield is now around 2.55%, only just above our view of the European Central Bank terminal rate of 2.5%. With little forward guidance expected from the ECB about future cuts whilst growth indicators are keeping up, we do not think lower euro rates are warranted. Having said that, in the near term, Friday's US payrolls data will not be ignored by euro markets.

Today's events and market views

From the eurozone, we will be looking at industrial production numbers from France and the services & composite PMI readings from Spain and Italy. Also, the PPI for the eurozone for April will be released. The highlight from the US will be the ISM services data, which besides the headline index will also include prices paid, employment and new order indices. The headline ISM services index dipped below 50 last reading, but consensus sees a rebound to 51.0.

For auctions we have the UK with a £4bn 3y Gilt and from Germany, a €3bn 7y Bund.

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