

Rates Spark: US jobs data can be key

It has been a big move lower in long-end rates over the past days, and today's US jobs data will be key in determining whether it has further to run. Notably, however, the front end has started to turn higher again. The Fed, having tied itself to long-end rates to a degree, may start pushing back against easing financial conditions



The rally in long-end rates extended with curve flattening accelerating

Overall, we have now seen a drop of close to 30bp in 10Y and longer yields over just two sessions – the 10Y is now at 4.66% and 30Y at 4.80%. As seen in the move higher before, it was also in large part a move in the real interest rate component in this leg lower. The 2s10s curve has reflatened by a substantial 18bp with the larger part of that dynamic actually coming yesterday. The lower-than-feared long-end supply fuelled by the US Treasury has helped, as has weaker macro data. And certainly, there was evidence of value hunters out there getting in at 'high' yield levels.

Markets will now be taking a close look at today's US jobs data to determine whether yields have further room to fall. Yesterday's US labour market indicators have already helped provide 10Y yields the final nudge below 4.7%. The initial jobless claims ticked a little higher to 217k from 212k and more importantly continuing claims rose to 1815k. That latter figure has been rising over

the past month and a half. While the rate of layoffs might still be considered low, it suggests that if you do lose your job it is becoming more difficult to find a new one.

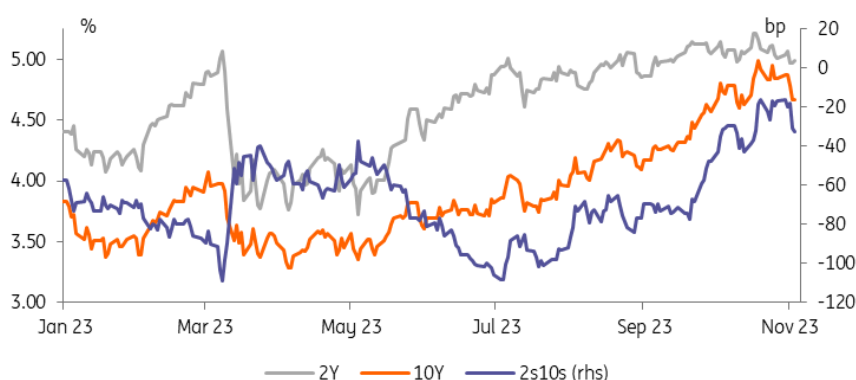
The Fed may push back against financial conditions easing again

The rally on long-end rates over the past sessions also highlights another conundrum for the Fed. By essentially referencing the higher longer rates as reason to withhold further tightening it has created an awkward interdependency with the market.

The Fed said it needed to see persistence in the changes to broader financial conditions for it to have implications for the policy path. While there are good reasons to assume that further tightening is off the table, the prospect of a larger rally in rates bringing them back again potentially limits the downside at the onset.

The caveat is that this may only work to the degree that long-end rates are actually driven by policy expectations. Front-end rates certainly are and pushed actually higher yesterday with the 2Y yield close to 5% again. That in mind, the Fed's interdependency with the market is adding to the re-flattening dynamic of the curve.

As the long end rally extended, front-end resistance accelerated the flattening



Source: Refinitiv, ING

Today's events and market view

We have doubts that this is the end of rises in long-dated market rates. For that to happen we would need to see material labour market weakness, putting today's job market report squarely in the spotlight. The consensus is looking for a 180k rise in non-farm payrolls, with forecasts ranging from 125k to 235k. It will be a slowdown from September's bumper figure of 336k, but even the consensus figure would still be relatively robust – cooling, but making it hard to argue that the labour market is really troubled yet.

As for supply as a driver, the market is effectively still facing higher issuance at upcoming Treasury auctions, and we are not even speaking of unresolved long-term debt trajectory concerns. As for the weaker ISM manufacturing that had helped drive the rally, it had been in contractionary territory since last October. The more relevant indicator should be today's non-manufacturing ISM. And with regards to the Fed, the speaker schedule is looking busier again after the meeting and the drop in longer rates may get some pushback.

Author

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

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