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RATES SPARK

Rates Spark: Heading into payrolls looking for something

Market rates have been remarkably steady of late. Long end rates are holding to elevated tendencies that built in recent months, while shorter tenor rates are being bolstered by ongoing rate hike threats. Trying not to mention the war, but... Iran remains a factor. Yet, as a 'steady-state tolerable negative', it's proving less impactful. Payrolls next



It's payrolls Friday. Even though it's lost some of its lustre, the unemployment rate is the number to watch

Payrolls incoming

It's payrolls Friday. The report itself has lost some of its aura, partly on question marks as to its accuracy (it is mostly just a survey after all). But also, the US economy has become a more complex beast to track. Even on very little expectation for employment growth, risk assets aren't perturbed at all. Bond markets typically would be on major alert into payrolls reports, but less so in recent months.

That all being said, it remains an important barometer of the labour market, and absolutely sets the tone for the months ahead. The market expectation is for employment growth of around 85k. That's an outcome that can only be described as 'meh'. But it's actually okay in the current economy, one that has the promise of a productivity revolution premised on tech

and AI underpinnings.

It's here that we identify a link with real yields, and a rationale for them to remain elevated. See more on that [here](#) and [here](#).

We'll monitor the rest of the report too, with the unemployment rate a particular focus. At 4.3%, it remains low, defying all the lay-off talk. The low jobless claims run we've been on, and again re-confirmed on Thursday, points to the same. It does feel we're overdue a lurch higher on these metrics at some point. And for Treasury bulls, that is the type of outcome that can shake off the risk that real yields remain sticky, and with more upside than downside tendencies.

Overall, the remarkable feature of the anticipated payrolls outcomes is that they would typically result in a bond buying spree. Traditionally, it was all about the employment growth number. But the current immigration policy of forcing marginal workers out of the country is a curb to this number. The unemployment rate was typically not the big one to watch. More recently, it's actually the unemployment rate that really counts. That's the one that should measure best the pushes and pulls between the tech rally implications for employment. If we stick at 4.3%, then we just move on to the next number.

Friday's events and market view

The highlight will be the US payroll data, whereby consensus sees the May nonfarm number fall from 115k to 85k. The unemployment rate is expected to stay at 4.3%. From the eurozone, we'll first have final GDP figures for first quarter 2026, but we don't expect this to be market moving.

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