Rates Spark: Can payrolls wake up Treasuries?

It's been quite the first full working week of 2026, starting with the remarkable narrative unfolding out of Venezuela, and was always going to culminate with the US payrolls report, a report that, in recent times, has been laced with as many questions as answers. Barring a dramatic data print, the more impactful number is likely to be the unemployment rate

US payrolls for December is out on Friday, but we think the key number to watch is the unemployment rate

Treasury yields remain caught in the headlights of data uncertainty – payrolls up next

Given the current US immigration policy, the 150k replacement rate has probably halved, which in fact is close to the market expectation for employment growth for December, at 70k. If we then overlay this with what we term the 'Chair Powell algorithm', by subtracting 60k from this, we churn out practically zero jobs created. The market is likely to show considerable tolerance to a weakish payrolls number like this, because it is so nuanced.

Barring a dramatic data print, the more impactful number is likely to be the unemployment rate. The reading for November was 4.6%, and the market expects it to ease back down to 4.5%. The

unemployment rate tells the real story, and while 4.5% is above the sub-4% unemployment rate we had become used to, it's still a tolerably low unemployment rate. Also, don't forget jobless claims. We get that number every Thursday, so there is less novelty attached to it. But remember that it's one of the few pieces of data that is not a survey, it's the real thing, and so should command more respect in these days of 'grain of salt' data. The latest jobless claims data suggest all is okay.

The 10yr Treasury yield has been trading in a tight range from 4.1% to 4.2% since the beginning of the year, and needs a data jolt to shift it out of that range. If we don't get it from Friday's payrolls report, it will be on to next week's CPI report. And next week also has a full curve supply test in the guise of 3yr, 10yr and 30yr auctions, which at the very least will market-test current levels.

We end this week with the geopolitical backdrop as eventful as it started, but remarkably not having much of an impact. The stand-out characteristic of this week has been one of risk-on, a theme that absolutely links as a continuation factor from 2025.

Healthy demand picks up record supply

Similar to previous years, Italy kicked off this year's funding with a dual-tranche syndicated deal. Only this time did the Italian Treasury take home €20bn spread across a €15bn new 7y benchmark and a €5bn green bond tap, marking a new record deal volume. A record order book of €150bn for the 7y bond also indicated that investors still have a healthy appetite for Italian credit. Next to Italy, Portugal was in the market for a new 10y benchmark while the broader €SSA sector also saw German lander NRW (30y) and Rhineland Palatinate (2y), as well as the Supranational ADB (3y) print deals.

In the European government bond space, 10y spreads over Bunds are optically tighter, with Germany having just auctioned a new 10y benchmark earlier this week. But even correcting for this, 10y Italian spreads over Bunds are now slightly tighter versus their pre-Christmas levels. Spreads are now in the area last seen in 2008.

Friday's events and market views

The highlight will be US payroll numbers, which the consensus sees at 70k, similar to the prior reading of 64k. The unemployment rate is expected to nudge a tad lower from 4.6% to 4.5%. Other US data includes housing starts and the University of Michigan sentiment indicators. From Europe, we will get industrial production numbers for Germany and France and retail sales for the eurozone aggregate. But also, for euro rates, the US payroll numbers will likely be the biggest market mover.

Author

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

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