

## Rates Spark: Working towards the jobs data

Politics has helped the US Treasury curve to resteeepen from the back end, but we think a renewed focus on monetary policy should drive a more front-end led steepening going forward. Jobs data this week could confirm the further cooling of the US jobs market. In France, the prospect of a hung parliament is becoming more of a baseline scenario



### Working towards the jobs data

There has been a lot of political noise on both sides of the Atlantic and more is still in store for coming days. This has led markets to incorporate the fiscal outlooks into their more near-term thinking again with US Treasuries having led a resteepeening of yield curves over the past few days. Lately of course that dynamic was accentuated by Bunds unwinding some of their France-related safe-haven bid.

While an important factor, we think that the US data should refocus markets on the potential monetary policy shifts ahead. And we think it holds growing prospects of a front-end led steepening of curves. Clearly, markets remain sensitive to the data, as yesterday's jobs

openings underscored. The upside surprise nudged yields briefly higher, but single readings are probably more noise than signal.

Overall, the trend is still pointing to a cooling jobs market. This is what we hope to see more evidence of with this Friday's nonfarm payrolls as we step towards a September rate cut. Today we will sift through the ADP payrolls report, job cuts data, initial and continuous jobless claims as well as the ISM services index and its employment component.

Markets took away little from remarks by Federal Reserve Chair Jay Powell and European Central Bank President Christine Lagarde at Sintra. On the face of it, central banks are still more inclined to further reduce the restrictiveness of their policies. Tonight, markets will parse the minutes of the June FOMC meeting where the Fed presented an updated dot plot projecting only one cut this year from three a quarter before. The minutes could reveal some narrative surrounding the risks of that outlook and how high the bar is for the Fed to still follow up with more cuts.

## France: Easing bond market tensions but still elevated spreads

As candidates retreated from three-way races ahead of the second round of the French legislative elections, tensions in bond markets also eased further. The 10Y spread of French bonds versus German Bunds narrowed 3bp to stand just above 70bp. It had stood as high as 84bp ahead of the first round. A hung parliament is becoming more and more the baseline, but Marine Le Pen has indicated that she would try to find partners to form a government should the absolute majority be missed by only a few seats – a shift from the National Rally's prior position.

### Today's events and market view

Eurozone data includes Spain's and Italy's services and composite PMIs for June. All are expected to come in slightly lower than the prior reading but still well above 50. For the eurozone as a whole, the PPI for May will be published, but given the muted reaction to yesterday's core CPI reading being a notch above consensus, we doubt the PPI numbers will have much market impact. From the US we have the ISM Services for June coming out, whereby both the headline index and prices paid components are expected to soften. Challenger job cuts, the ADP payrolls estimate, initial jobless claims and factory orders data ensure a busy slate ahead of tomorrow's US holiday.

The most notable issuance is an auction of €5bn new 10Y Bunds from Germany.

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