

Calm before the payrolls storm

US labour market data can still shake markets, but current movements seem much more momentum driven



Source: bubble

Back to the bond rout?

A quick chart of recent bond yield changes on the 10Y US Treasury looks not unlike the run-up of US house prices in 2005/2006, or the pre-correction bitcoin price moves. Indeed, on the sort of standard relative strength indicators available on some well-known news packages, it is sending a classic oversold signal. But that ignores the scope for actual fundamental data to play a role in the near term. In terms of fundamental support for markets, US tech earnings have been mixed to disappointing in the last few days, which may weigh on an equity market that has been relatively resilient overnight against the backdrop of rapidly rising bond yields, and could have weighed back on bond yields if equity indices had begun to falter more significantly. Offsetting this, rising US PPI data and red-hot manufacturing surveys provide some inflationary offset that would have helped push bond yields back up again.

As for today's US labour report....? In my opinion, this is the most over-watched and over-rated piece of economic data on the planet. But that does not stop the market from scrutinizing every number. For what its worth (and that is admittedly not much) I like our house call of further weak wages numbers (2.4%YoY - there are some calendar timing issues on the wages front with this survey), though the payrolls employment change headline could well surprise on the upside. For

me, the wages data should dominate market reactions.

If what we are seeing in terms of market price movements reflects a rebalancing of portfolio investment away from US assets (notably bonds) towards European government bonds (German sovereign yields continue to nose slowly higher and away from zero, helped by taper comments from ECB Board member, Nowotny overnight), then the recent trend of USD weakness, EUR strength, Asian currency strength, UST sell-off, EU government bond more gradual sell-off is likely to continue. What is less clear is how stocks fit into this pattern. Though they may well get spooked if the bond yield ascent does not slow soon.

What about the call by a well-known US private financial institution to look for 3.0% on the US 10Y. Never say never, but this probably is a better reflection of that institution's internal positioning, than a fundamentally-backed analysis. Still, it's only a little over 20bp off, so it is hardly a bold call.

Aside from payrolls, it is a quiet day on the global calendar. And it is quiet in Asia too, although Bank of Japan bond purchases could be worth watching later this morning as the 10YJGB yield nears 0.1%.

Happy (hopefully lazy) Friday!

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