Rates Spark: A short sigh of relief

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Relatively dovish comments from the Fed's Waller pushed back against the bearish trend from the past week. But markets remain sensitive to data and after a strong ISM report, the US payrolls number will be closely watched. A number below 25k together with a benign inflation reading next week could persuade the Fed to stay on hold at the upcoming meeting

The US takes global rates on a data rollercoaster

Dovish comments by the Fed’s Waller sent rates lower on Thursday. He was more inclined to keep rates on hold, citing some signs of disinflation, but also pointed to the remaining data ahead in the next two weeks with a nod to the CPI release.

A stronger ISM services report then pulled rates higher again, though not all the way back. Higher-than-expected new orders and prices paid, alongside a weaker employment component gel with the anticipated impact of AI.

Rates will likely continue to be jolted around by the data with Friday’s jobs data being one of two key releases that will help define the next FOMC decision. After Waller’s comments, the market’s implied probability for a rate hike at the September meeting only briefly dropped noticeably below the 50% threshold, highlighting that after the Fed Chair’s comments at Jackson Hole, the decision is better framed as a hike unless the August jobs and CPI data justify a pause. Our economist suspects that now, it will likely require a jobs figure below 25k, possibly even net job losses, with then a core CPI reading below 0.2% month-on-month, to prevent or delay a hike.

Long-end yields are also following the lead of the short end, but the steepening of the curve is a reminder that there are other narratives at play that will keep long-end yields elevated going forward.

Friday’s events and market view

All eyes are on the payrolls' data after recent Fed commentary has raised the stakes for a hike while making it also more dependent on the final jobs and inflation data ahead of the meeting.

In Friday's US jobs report, consensus eyes a 55k increase in non-farm payrolls after the 23k decline in July. The unemployment rate is expected to stay unchanged at 4.1%. Note that Friday is the final day ahead of the Fed’s communications blackout ahead of the 16 September FOMC meeting.

ECB Chief Economist Lane will speak on Friday, but is unlikely to touch on policy-relevant issues since the European Central Bank is already in its own black-out period. In terms of other releases, the eurozone will publish retail sales data for July.

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