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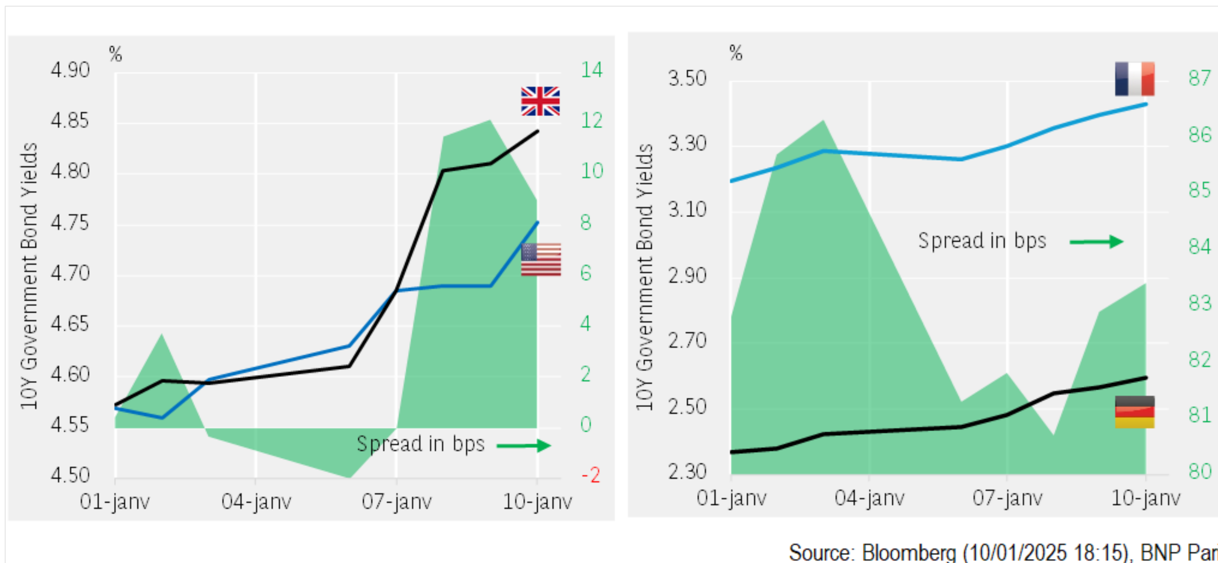
EcoBrief

US employment and bond rates: A turbulent week

The latest Employment Situation report prior to the next FOMC meeting (28-29 January) points to the surprising strength of the US labour market, illustrated by job creation at its highest level since March 2024. Publication concluded a week marked by a significant rise in bond yields against a backdrop of expectations of rates "higher for longer", leading to sharp movements on the financial markets.

Surprise upturn: The creation of non-farm payrolls accelerated in December, to +256k compared to +212k previously, although the consensus had expected a slowdown (+135k). The surprise drop in the unemployment rate (-0.1 pp, at 4.1%) strengthens the positive signal of job creation, especially as this was based on an increase in the number of people in employment, while the number of people who have been dismissed is falling in terms of total unemployed. Earlier in the week, it was activity and the price of inputs in the services sector that had an impact, the ISM non-manufacturing figure (54.1, +2.0 pp) being accompanied by a jump in paid prices (64.4, +6.2 pp) to a high not seen since February 2023.

The Fed, soon to be in pause mode: The interest rate cuts decided at the last three FOMC meetings were motivated in particular by the "unmistakable" cooling in labour market conditions. The strength regained at the end of 2024 is moderating this diagnosis. This also comes in a context of a loss of disinflationary momentum, solid activity and the imminent arrival of inflationary policies. Already, the minutes of the last meeting indicate that the Committee considered it "was at or near the point at which it would be appropriate to slow the pace of policy easing". In this respect, December non-farm payrolls confirm the status quo on 29 January, and are part of our scenario of the absence of any drop in the rate target in 2025.



Source: Bloomberg (10/01/2025 18:15), BNP Pari

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Pressure on bond markets: This environment, which is favourable to expectations of lower interest rates, is not without consequences for bond yields. The US 10-year yield gained +14 basis points (bps), reaching +4.75% over the week, the highest seen since October 2023. The 30-year yield rose accordingly to +4.95%. These movements come in a context of a significant rise in interest rates, with the 10-year and 30-year rates having gained nearly 60 bps over the past month, mainly as a result of a rise in the Fed's implied rates and the term premium. In addition, the issuance of 10-year bonds (Wednesday 8 January) on the primary market resulted in the highest yield since 2007 (+4.68%).

External contagion and financial markets: These long-term interest rate movements go well beyond the US scenario (see charts), but they are more significantly affecting sovereign markets experiencing difficulties, such as the United Kingdom (+23 bps to 4.84%), against a backdrop of fears about the fiscal trajectory, and France (+14 bps), where the 2025 budget vote remains pending. And lastly, stock market indices were not to be outdone; they also reacted sharply, as illustrated by the S&P 500 closing at -1.5% on Friday 10 January.

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