

LIVE MARKETS-So what's up with Treasuries? - Reuters

🔥 08-Dec-2022 08:13:41

Sentiment:
Mostly Negative



- EuroSTOXX50 futures little changed
- Economic slowdown fears linger
- U.S. stock futures steady

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SO WHAT'S UP WITH TREASURIES? (0712 GMT)

Asking for a friend.

Because it is not often 10-year yields suddenly drop 11 basis points, break a chart big barrier and hit three-month lows for no discernible reason.

Some point a finger at the downward revision to Q3 U.S. labour costs. But Q3 is ancient history and only GDP nerds understand labour cost indices.

Yes, China trade data were truly awful, but both U.S November payrolls and the services ISM surprised on the high side and should be more meaningful for Treasuries.

True, the Bank of Canada did manage to be both hawkish and dovish by hiking 50bp but flagging it might be near done tightening. But the Fed is still going to hike 50bp next week and most analysts expect a higher set of FOMC dot plots for rates in part as a protest against recent financial market easing.

And what an easing it's been. Since the Fed hiked 75bp in November, 10-year yields have fallen 90bps to be 37 basis points under the cash rate, while 10-year fixed mortgage rates have dropped to 6.07% from 6.67%.

Of course, Fed Chair Powell caused much of this, given he had the perfect chance last week to push back hard against the easing and didn't - and it's still not clear why.

Maybe the sudden groundswell of recession fears has central bankers spooked. Treasuries are not innocent bystanders here, since the more inverted the curve becomes the more those fears seem justified.

There used to be a saying that the Treasury curve foretold five of the last two recessions, but these days nobody seems to doubt its pain-predicting powers. So long-term yields are tumbling because of recession fears caused by that very tumble?

Friend really wants to know.

Key developments that could influence markets on Thursday:

- China's health authorities will hold a press conference on COVID-19 prevention and control measures at 3 p.m. local time (0700 GMT).
- U.S. weekly jobless claims expected to rise back to 230,000, but tend to be volatile this time of year.
- Appearances by assorted central bankers from the ECB, Riksbank and Bank of Canada.

(Wayne Cole)

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Keywords: GLOBAL-STOCKS/

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