The Day Ahead: More Pain. Fewer Surprises

Here's a repeat of the lock/float considerations posted on Friday after the jobs report: "Friday's strong jobs report and resulting bond market rout change the calculus for rate expectations until further notice. Traders now need new data to reinvigorate the case for an economy that's weakening enough to support the Fed's expected case of rate cuts. As big as Friday's sell-off was, it still makes sense to view it as the start of a trend toward higher rates until the market proves otherwise."

Big reactions to NFP--especially those that follow a consolidation period--often lead to momentum that remains intact for days if not weeks. The only potential saving grace here is that we already had a bit of negative momentum heading into last Friday. Even so, it makes more sense to plan for it to continue until data speaks up in favor of a reversal. If we're simply waiting for traders to be tired of selling, that conversation doesn't really start until 10yr yields are closer to 4.15%.

Why 4.15%? That's where the bond market was before the recent bout of labor market concern ramped up in early August. Recall that the early August rally was only as sharp as it was due to the Yen carry trade craziness and that subsequent trading settled in on a range of 3.8 to 4.0. And that was AFTER a very downbeat jobs report. Now we have a very upbeat jobs report (and one that incidentally provided a big upward revision of that very downbeat report released in early August). The fact that 10yr yields are "only" up around 4% is fairly gentle, all things considered. 4.15% would be the first point at which we'd start to wonder if we'd seen enough negative momentum for some old fashioned "technical support."

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