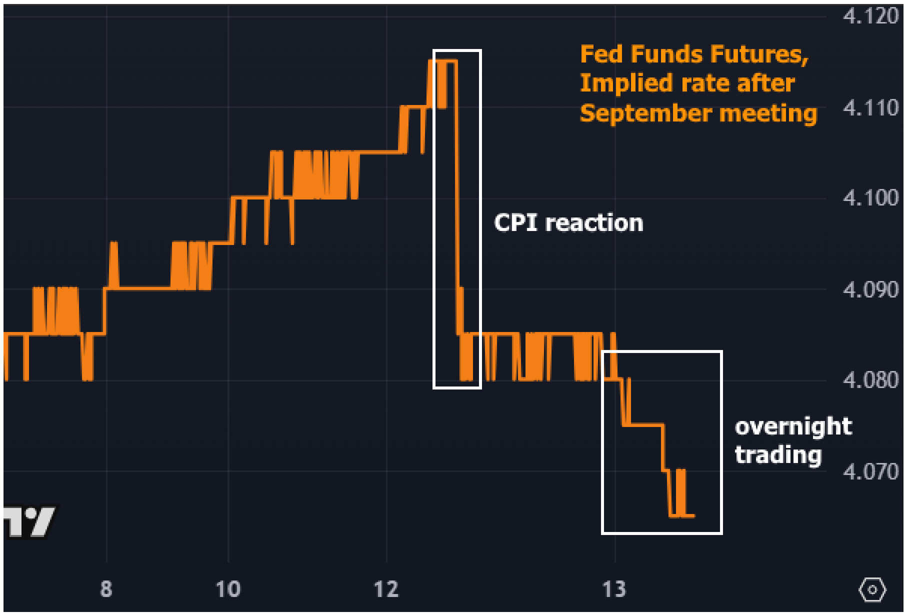
The Day Ahead: Follow-Through Rally as Fed Rate Cut Expectations Increase

Bonds rallied overnight, largely in concert with lower EU yields. Stable inflation in Germany and lower oil prices helped. But there was also a tailwind from Fed Funds Futures which saw a further increase in the odds of a rate cut at the September meeting. While this is undoubtedly a better way to start the day compared to a sea of red on trading screens, and while a 4+ bp improvement in 10s is more than just an incidental, inconsequential rally in day over day terms, the bigger picture is actually quite boring. It's not an oversimplification to say that yields were orbiting 4.40% before the last jobs report and then rallied down to a 4.2-4.3 range afterward. CPI did no harm, so we remain in that range as we wait to see whether the next jobs report will justify only the 25bp cut currently expected by the market or whether it's weak enough to entertain a 50bp cut (unlikely for now, but a preponderance of weak data in the interim could change things).



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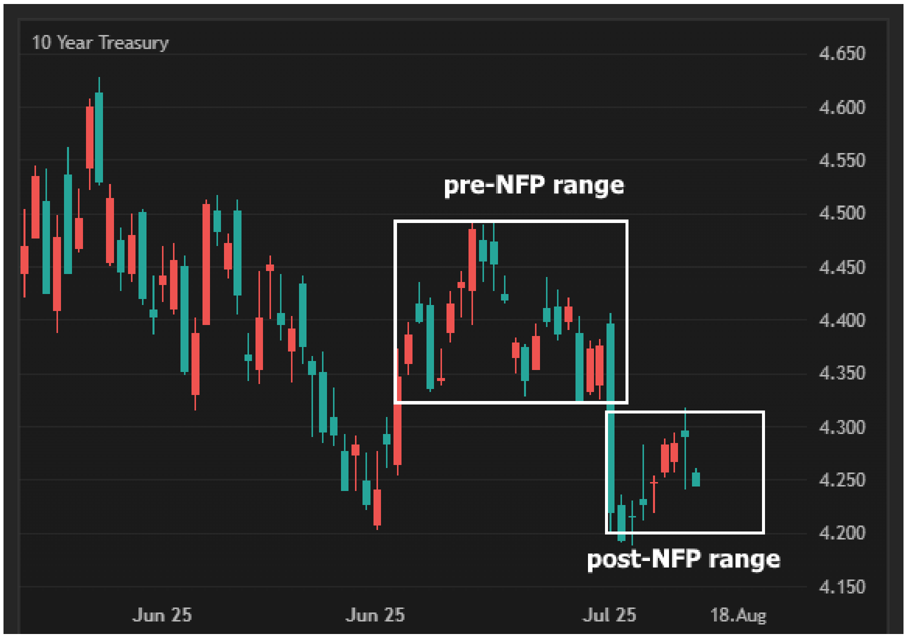
10 Year Treasury
pre-NFP range
post-NFP range
4.650
4.600
4.550
4.500
4.450
4.400
4.350
4.300
4.250
4.200
4.150
Jun 25
Jun 25
Jul 25
18.Aug