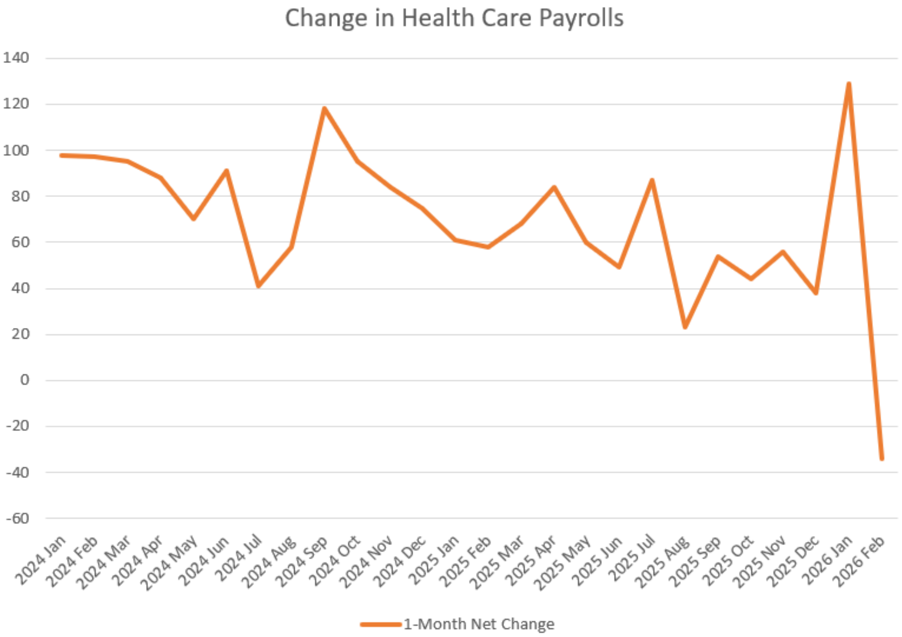
The Day Ahead: Massive Miss in NFP. So Why Aren't Bonds Improving?

It's shaping up to be a frustrating day market watchers. Decades of experience tells us that bonds should rally fairly sharply on a day where nonfarm payrolls miss the forecast by the widest margin in more than a year. At -92k vs +59k, today fits that bill. And like you'd expect, bonds rallied sharply right at 8:30am ET. But the rally was short-lived and it's not a huge surprise.

That's not a hindsight assessment either. It was actually our first analytical reaction. Reason being: the unemployment rate carries more weight than NFP these days, and it was only up to 4.4% from 4.3% last month. Beyond that, we can consider the payroll count was distorted by health care strikes (and noted by BLS at the top of the report). With health care doing so much heavy lifting, the impact on NFP can't be overstated.



Finally, away from the data, we have the ongoing surge in oil prices which kicked into even higher gear today. At this point, inflation implications can't be ignored. We normally push back on the oil vs 10yr correlation because it's so frequently irrelevant--especially over the shortest time horizons. The scope of movement can also be very mismatched, even when correlation is present. For evidence, look no further than the long-term chart.

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But in the medium-short term, the correlation is definitely causing problems for bonds. After all, even a weak correlation is going to hurt when oil is moving this sharply--especially if it's moving for reasons that also imply additional Treasury issuance.