

Bonds Circle The Wagons Ahead of High Risk NFP

Market Summary: Thursday, July 3, 2025 - 12:35AM

The consensus for tomorrow's NFP (nonfarm payrolls, the principal component of the big jobs report) is 110k--not much of a downgrade from last month's 139k. The bond market has recently been trading as if it expects to see an even lower number--a fact that's not too surprising given the preponderance of other data that suggests a weaker labor market in June. The latest in that list was today's ADP employment report which completely whiffed (-35k vs 95k f'cast). Bonds initially rallied on that news, but didn't maintain the gains, possibly due to all of the preemptive rallying already in place over the past 2 weeks, and possibly because ADP is notorious for paradoxically diverging from NFP on any given month despite broad long-term correlation. Today's weakness was minimal in the bigger picture and could just as easily be viewed as part of a 2-day process of circling the wagons (pausing and modestly correcting a prevailing trend on the eve of high-consequence data).



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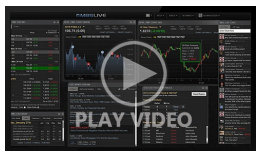
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MBS & Treasury Markets

UMBS 5.5	99.93	+0.08	10YR	4.254%	-0.026%	7/3/2025 4:35AM EST
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Bonds Think About Rallying on ADP Data, But Already Getting Cold Feet

ADP employment was this morning's key economic report and it came out sharply weaker than expected (-33k vs 95k f'cast). There are many past examples of a "miss" of this size prompting a swift rally on the bond market. Although that looked like it could have been in the works in the first few minutes, bonds have since reversed course and moved back in line with weaker overnight levels. What's up with that? To some extent, global bond markets are experiencing some pressure from a massive rout in UK debt over fiscal spending fears. Then there's the simple fact that ADP has such a hit and miss track record when it comes to predicting NFP. Recently, ADP has drifted much lower without NFP following suit.

UPDATE: Bonds Erasing Overnight Losses After Sharply Weaker ADP

ALERT: Weakest Levels of The Day

Today's Mortgage Rates

30YR Fixed 6.75% +0.02%

15YR Fixed 5.98% +0.01%

7/3/2025

Rates Finally Rise Ahead of Jobs Report

have generally been falling since May 21st and have done nothing but move lower for more than 2 weeks. That winning streak finally came to an end today with the average lender moving up 0.06% for a top tier 30yr fixed quote.

While that's a moderately big jump for a single day, if we remove the past 4 days from the equation, today's rates would still be the lowest since early April. In other words, we're still in solid shape in the bigger picture.

Additionally, we've increasingly expected rates to bounce as the recent winning streak persisted. As of yesterday, it was up to 11 days and the odds of a bounce rise sharply after about 5-8 days.

Last but not least, it's also not uncommon for rates to "circle the wagons," so to speak, if they're in the midst of a sustained trend on the eve of a critical market event. Tomorrow's jobs report classifies as such an event. Along with the Inflation data coming out on July 15th, this data has the potential to firmly support or reject the notion that the Fed could cut rates as early as this month.

While we often go out of our way to remind our audience that the Fed Funds Rate doesn't dictate mortgage rates, a lot of that has to do with timing. Changes in Fed Funds Rate expectations almost always correlate quite well with mortgage rate movement, and this data could absolutely change those expectations.

As with any big ticket economic report, there's no way to know how it will fare versus the consensus ahead of time because that consensus constantly adjusts for all available info. In other words, if other reports suggest a weaker labor market, forecasters will update their forecasts and traders will take a lead-off in the corresponding direction. Bottom line: all we can know is that potential volatility is high tomorrow (Thursday) morning, for better or worse.

Time	Event	Actual	Forecast	Prior
Thursday, Jul 03				
8:30AM	May Trade Gap (bl)	\$-71.5B	\$-71B	\$-61.6B
8:30AM	Jun/21 Continued Claims (ml)	1964K	1960K	1974K
8:30AM	Jun Participation Rate ☆	62.3%		62.4%
8:30AM	Jun Average earnings mm (%) ★	0.2%	0.3%	0.4%
8:30AM	Jun/28 Jobless Claims (k) ★	233K	240K	236K
8:30AM	Jun Non Farm Payrolls (k) ★★	147K	110K	139K
8:30AM	Jun Unemployment rate mm (%) ★★	4.1%	4.3%	4.2%
9:45AM	Jun S&P Global Composite PMI ☆	52.9	52.8	53
9:45AM	Jun S&P Global Services PMI ★★	52.9	53.1	53.7
10:00AM	May Factory orders mm (%)	8.2%	8.2%	-3.7%
10:00AM	Jun ISM Services Prices	67.5		68.7
10:00AM	Jun ISM Services Employment	47.2		50.7
10:00AM	Jun ISM Biz Activity ★	54.2		50.0
10:00AM	Jun ISM N-Mfg PMI ★★	50.8	50.5	49.9
11:00AM	Fed Bostic Speech ☆			
2:00PM	Happy 4th!! ★★			
Friday, Jul 04				
12:00AM	Happy 4th!! ★★			

Recent Housing News

- Pending Home Sales Data Scores Some Points, But Not Enough to Change The Game
- New Home Sales Drop to Lower End of Range After Hitting The Highs Last Month
- Mortgage Applications Buoyed by FHA Refis

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Rates Closing in on 8 Month Lows

After going to great lengths to explain why the Fed Funds Rate isn't the same as mortgage rates, we'll now have to discuss how the Fed nonetheless found a way to push rates lower this week. We already know the Fed held rates steady last week, and we've discussed the fact that mortgage rates wouldn't necessarily have fallen even if the Fed had cut the Fed Funds Rate. But mortgage rates definitel...

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