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UPDATE

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Global Macro Commentary | Global

September 4: Jobs Reprice Fed Risk

US payrolls surprised at 162k; Fed hike pricing rose; Treasury curve twist-flattened; JGBs rallied; EMFX posted a 10th weekly gain; S&P 500 fell 0.4%; gold fell 1.0%; DXY at 99.17 (+0.3%); US 10y at 4.78 (+1.4bp).

A stronger-than-expected US labor report raised near-term Fed tightening expectations and pressured the front end, while the limited follow-through in the dollar and risk assets left inflation data as the next key policy catalyst.

Developed Markets

- **US rates twist-flattened (2y: +3.0bp; 30y: -0.4bp), with 10y yields closing 1.4bp higher after a much larger post-payroll sell-off faded through the session.** August payrolls rose 162k against a 55k median estimate in the supplied news, while July was revised to +21k from -23k and two-month revisions totaled +55k. The unemployment rate held at 4.1% despite participation increasing to 61.6%, reinforcing the message of a firmer labor market. Fed pricing shifted toward a September hike, with markets assigning roughly a 60% probability after the release, before attention moved toward next week's PPI and CPI reports. The S&P 500 fell 0.4% and the VIX rose 1.5%, though the contained equity response and late Treasury recovery suggested investors continued to view inflation as the decisive input for the September meeting.

- **Inflation-sensitive pricing showed a front-end bias as stronger labor data coincided with elevated energy costs.** The 2y breakeven rose 2.4bp, while 10y breakevens were nearly unchanged (-0.1bp) and 30y breakevens declined 0.6bp. Brent oil gained 0.3% to $95.83/bbl while WTI edged 0.1% lower to $91.19/bbl, leaving the broader energy backdrop elevated after renewed geopolitical tensions had pushed US diesel prices to record levels. Gold fell 1.0% and silver declined 1.2% as higher short-end yields and a stronger dollar weighed on precious metals. Treasury's expanded liquidity-support buyback program was also scheduled to begin next week, adding another market-technical focus alongside inflation data.

- **The dollar strengthened modestly (DXY: +0.3%), but the FX response was limited relative to the magnitude of the payroll surprise.** EUR/USD declined 0.1%, while USD/CHF and USD/SEK both rose 0.3%; GBP/USD and AUD/USD were essentially unchanged. USD/CAD gained 0.3% as Canadian employment fell 41.7k in August versus expectations for a 15k increase, with the decline concentrated in full-time jobs, contrasting with the stronger US labor data. Canadian 10y yields nevertheless rallied 1.5bp, widening the

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directional divergence with Treasuries. The muted broader dollar follow-through was consistent with continued uncertainty over whether the Fed would act in September before receiving the upcoming inflation prints.

- **Lower US yields and a sharp decline in USD/JPY to the 155.20 NY overnight supported the JGB market in the Tokyo morning session.** JGB futures opened 48c higher on the day, and long end JGB richened sharply, unwinding of short positions could contribute the flow following the sharp JPY appreciation from the previous day, driven by expectations of GPIF repatriation flows. Thereafter, the decline in the 30-year yield moderated, while 5-year, 10-year, and 20-year yields fell. In the afternoon session, the rally extended across the curve, led by the super-long sector. JGB futures rose as much as 63c on the day, marking an intraday high, while 5-year, 10-year, 20-year, and 30-year yields widened their richness. Late in the session, the 20-year yield was down as much as 12.5bp and the 30-year yield by 11.5bp, while the 40-year yield fell 13.0bp. The curve bull-flattened sharply; 5y JGB rallied by 5.5bp to 2.225%, 10y JGB rallied by 6bp to 2.905%, 30y JGB rallied by 11.0bp to 3.965%, on simple yield basis. TONA-OIS curve also bull flattened but underperformed JGBs. XCCY basis tightened across the curve.

- **In the euro area, yields richened over the London session.** The main event was the release of US Non-Farm Payrolls, after which German yields briefly cheapened before recovering to close around 1bp lower at the 2y point and marginally lower further out the curve. Across EGBs, spreads to Germany tightened modestly, particularly in the belly, with 5y OAT/Bund, BTP/Bund and Bonos/Bund spreads all around 1bp tighter. Swap curves saw little movement, with 2s10s flattening by around 1bp. With the market uniformly expecting a September hike, and following relatively strong economic data in recent weeks, focus is increasingly shifting towards the December meeting. Over the course of the session, the implied December hike was priced back by around 2bp. In the UK, markets also closed little changed on the day, with Gilts modestly pivot-flattening over the session. The long end richened somewhat, with 5s10s flattening by around 1bp, while short-end yields closed slightly higher. Also swap curves flattened, with 5s10s flattening by around 2bp.

Emerging Markets

- **AxJ currencies traded mixed through the Asia session while rates mostly rallied as oil prices fell ~0.5% ahead of the US August NFP release.** USD/CNH fell 0.1% to ~6.7080as the USD/CNY fixing fell below 6.78, while China rates underperformed with relative stability as the PBoC net drained RMB20bn liquidity. TWD outperformed, gaining 0.4% as the local equity market saw $1.8bn of foreign inflows, the most since August 13, amid 1.5% rally in TAIEX.

- **KRW also gained 0.3% alongside a 1.6% rise in KOSPI, $546mn of foreign equity inflows and a $2bn FDI pledge from US firms.** 10y KTB yield fell 2bp while 30y yield remained stable as the Finance Ministry commented that they will closely monitor the domestic bond market and work to prevent excessive market volatility. PHP underperformed, weakening 0.2% amid policy uncertainty, while 10y RPGB yield rose by just 1bp as August CPI came in line with consensus expectations. India FX and rates remained stable as RBI drained INR6tr liquidity via two 3-day VRRR auctions to manage abundant liquidity and sold INR320bn G-secs as planned.

- **LatAm FX traded mixed, with COP and MXN outperforming despite the hawkish repricing in US rates.** COP appreciated 0.5% and MXN gained 0.2%, with the peso reaching its strongest levels in roughly two years as Banxico's recent hold supported carry. BRL weakened 0.4% even as Brazil reported a $7.394bn August trade surplus versus $7.071bn expected, with exports totaling $33.158bn. CLP weakened 0.3% despite copper edging 0.1% higher, while PEN declined 0.1% against USD. Brazilian equities were essentially unchanged, leaving FX as the clearer expression of the day's regional divergence.

- **CEEMEA currencies were also mixed against the stronger dollar. ZAR appreciated 0.2% despite gold falling 1.0%, while PLN strengthened 0.1% against USD and 0.2% against EUR.** HUF weakened 0.2% against both USD and EUR, while CZK declined 0.2% against USD. The moves came as several regional markets remained more sensitive to local policy and political developments than to the modest rise in DXY. Overall, the region avoided the broader depreciation that might ordinarily accompany a stronger US payroll print and higher front-end Treasury yields.

Central Bank Monitor

Developed Markets

- In the UK, **BoE Governor Bailey** warned that central banks face a "serious challenge" from the rise of populist forces, stating that the BoE must not take its "legitimacy for granted" and must "demonstrate how our actions serve the public good." He also noted that the central bank exercises choice over the speed of returning inflation to target, and that central bank independence should not be seen as detachment from democracy or an obstacle to sovereignty.
- In the UK, **BoE Chief Economist Pill** noted in an interview with Moneyfacts' INTEREST journal that government financing from central banks could bring into question central bank independence, which he described as essential to credibility. He also highlighted that the BoE has been using AI models and new techniques such as web scraping to extract more economic detail amid questions over the

reliability of official ONS data.

Emerging Markets

- In the Philippines, **BSP** said it will continue to closely monitor the impact of Middle East developments and weather-related disturbances on inflation. It noted that it will remain guided by incoming data and its assessment of risks to inflation outlook.
- In Taiwan, **CBC** said that the change in August FX reserves reflected returns from reserve management, FX valuation effects, and the central bank stepping in to smooth volatile capital flows and maintain an orderly FX market. **CBC FX Department Head Tsai** said that the FX reserves increase was mainly due to the CBC's foreign currency purchases to smooth movements in the FX market.

Exhibit 1: G4 Rates Closes

	US			Germany			UK			Japan		
Tenor	4-Sep	1d Δ (bp)	2wk	4-Sep	1d Δ (bp)	2wk	4-Sep	1d Δ (bp)	2wk	4-Sep	1d Δ (bp)	2wk
2y	4.366	3.0		2.946	(0.6)		4.529	1.2		1.831	(0.7)	
3y	4.444	3.5		2.972	(0.5)		4.576	1.4		2.013	(2.4)	
5y	4.545	3.0		3.079	(0.2)		4.631	1.1		2.233	(3.9)	
7y	4.653	2.1		3.177	(0.3)		4.887	0.1		2.640	(4.3)	
10y	4.782	1.4		3.338	(0.4)		5.133	(0.1)		2.908	(4.0)	
20y	5.247	0.0		3.746	(0.2)		5.697	(0.6)		3.712	(8.7)	
30y	5.242	(0.4)		3.810	(0.3)		5.775	(0.6)		3.978	(8.7)	

Exhibit 2: Macro Closes

	Majors			EM				Equities / Commodities			
Spot	4-Sep	1d Δ (%)	2wk	Spot	4-Sep	1d Δ (%)	2wk	Index	4-Sep	1d Δ (%)	2wk
DXY	99.17	0.3		CNH	6.71	(0.1)		S&P	7718.60	(0.4)	
EUR	1.161	(0.1)		INR	94.50	0.0		Stoxx	6392.93	0.2	
GBP	1.352	(0.0)		THB	32.94	(0.2)		FTSE	10831.09	(0.0)	
JPY	156.26	0.3		KRW	1351.65	(0.4)		Nikkei	65020.94	1.3	
CHF	0.810	0.3		ZAR	15.96	(0.2)		VIX	14.53	1.5	
AUD	0.720	0.0		MXN	16.89	(0.2)		Gold (S)	4429.98	(1.0)	
CAD	1.384	0.3		BRL	5.13	0.4		WTI (Fut)	91.18	(0.1)	

Exhibit 3: Inflation Closes

	US TIPS			10y Real Yields, BEI							
Tenor	4-Sep	1d Δ (bp)	2wk	10y	4-Sep	1d Δ (bp)	2wk	10y	4-Sep	1d Δ (bp)	2wk
5y	2.144	2.2		DBRi	0.973	0.3		BTPi	2.090	(0.3)	
BEI	2.383	0.8		BEI	2.168	(0.5)		BEI	2.097	(0.5)	
10y	2.426	1.4		UKTi	1.706	1.1					
BEI	2.353	(0.1)		BEI	3.352	(1.2)					
30y	2.977	0.1		JGBi	0.925	(2.0)					
BEI	2.271	(0.6)		BEI	1.978	(2.3)					

Exhibit 4: G4 Central Banks

Central Bank OIS

Fed	Implied	1d Δ (bp)	Total Δ	ECB	Implied	1d Δ (bp)	Total Δ	BOE	Implied	1d Δ (bp)	Total Δ	BOJ	Implied	1d Δ (bp)	Total Δ
EFFR (9/3)	3.630	0.0	--	EONIA (9/3)	2.189	0.0	--	SONIA (9/3)	3.730	0.0	--	TONAR (9/3)	0.978	0.0	--
09/16/26	3.776	3.8	2.1	09/10/26	2.438	2.4	(0.1)	09/17/26	3.754	3.8	(1.0)	07/31/26	#N/A	#VALUE!	#VALUE!
10/28/26	3.842	3.8	1.5	10/29/26	2.495	2.5	(0.1)	11/05/26	3.879	3.9	(1.9)	09/18/26	1.220	(0.3)	24.2
12/09/26	3.976	4.0	1.5	12/17/26	2.649	2.7	(1.2)	12/17/26	4.015	4.0	(0.5)	10/30/26	1.288	0.1	31.0
01/27/27	4.032	4.0	1.5					02/04/27	4.151	4.2	0.1	12/18/26	1.425	(1.3)	44.7
								03/18/27	4.253	4.3	0.1				
														(6.0)	

Economic Releases

Developed Markets

- **US August Change in Nonfarm Payrolls**: 162.0k (MSe: 65k; C: 55k; P: -23k). August payrolls surprised to the upside, rising 162k versus our 65k estimate and 55k consensus. Prior months were revised up by a net 55k, bringing the three-month average to 71k. Private payrolls were particularly strong at 127k, while average hourly earnings pointed to moderate wage growth (0.3% m/m, 3.1% y/y) and payroll earnings remained strong. Goods-related payrolls resumed their reacceleration, while strength in services was narrower and most evident — though perhaps least reliably — in leisure. The labor force participation rate rebounded to 61.6%, beginning to unwind its summertime decline as expected, while the unemployment rate was unchanged at 4.1%. The August payrolls report does not change our outlook for the Fed to remain on hold through year-end, with the Fed's focus likely to remain on inflation.
- **Germany Jul Manufacturing Orders**: 2.5% m/m (MS: -2.0% m/m, C: 0.3% m/m, P: 3.1% m/m)
- **Euro Area Jul Retail Sales**: -0.6% m/m (MS: 0.1% m/m, C: 0.3% m/m, P: -0.3% m/m).

Emerging Markets

- **Korea July Current Account Balance**: $42.1bn (P: $49.7bn); **Goods Balance**: $40.4bn (P: $47.9bn)
- **Philippines August CPI**: 6.1% y/y (C: 6.1%; P: 6.2%)
- **Thailand August 28 FX Reserves**: $283.2bn (P: $284.7bn)
- **Taiwan August FX Reserves**: $601.9bn (P: $594.3bn)
- **India August 28 FX Reserves**: $740.8bn (P: $729.3bn)

The Day Ahead

Developed Markets

- 7:00am BST - **Germany July Industrial Production (incl. Construction)** (MSe: -0.2% m/m; C: 0.4%; P: 0.2%). Industrial activity in July might have slightly contracted due to drags in some sectors from heat and low water levels.
- 7:00am BST - **Sweden August CPI (flash)** (MSe: 0.7% y/y; C: 0.5%; P: 0.2%); **CPI-F (flash)** (MSe: 0.8% y/y; C: 0.9%; P: 0.7%); **CPI ex Energy**

(flash) (MSe: 0.7% y/y; C: 0.7%; P: 0.6%). Both electricity and fuel prices were a touch higher in August compared to July. Goods inflation is expected to increase slightly as the momentum builds up again also due to seasonal price hikes, but we expect services to decline on the month driven by seasonal services.

- 10:00am BST - **Euro Area 2Q GDP (final)** (MSe: 0.6% q/q; C: 0.4%; P: 0.4%). Ireland 2Q26 GDP growth has been revised to 10.2% q/q from an initial estimate of 3.9% q/q, which is ca 20bp upside for the EA aggregate numbers compared to the flash estimate. EA 2Q26 GDP growth could be revised to 0.6% q/q vs 0.4% q/q previously.

Emerging Markets

- Monday, 11:00am HKT – **Indonesia August FX Reserves** (P: $145.3bn)
- 11:30am HKT – **Thailand August CPI** (C: 2.4% y/y; P: 2.0%); **Core CPI** (C: 1.4% y/y; P: 1.3%)
- 1:00pm HKT – **Singapore July Retail Sales** (C: 3.1% y/y; P: 4.0%)
- 3:00pm HKT – **Malaysia August 28 FX Reserves** (P: $132.7bn)
- 4:30pm HKT – **Hong Kong August FX Reserves** (P: $447.8bn)
- 5:00pm HKT – **Singapore August FX Reserves** ($427.9bn)
- **China August FX Reserves** (C: $3.4tr; P: $3.4tr)
- **Philippines August FX Reserves** (P: $103.3bn)

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