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Bond Traders Focus on July Jobs Report for Federal Reserve Rate-Cut Signals

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Investors in U.S. Treasuries are closely watching Friday's July jobs report for signs of a labor market slowdown that could prompt the Federal Reserve (Fed) to cut interest rates as early as September. The employment data will be a key factor in shaping expectations about the central bank's next moves amid mixed signals about economic strength.

The Fed left its benchmark interest rates unchanged this week, with Chair Jerome Powell describing the job market as “in balance.” Despite this, Powell acknowledged “downside risks” to the labor market, leaving the possibility of rate cuts on the table. So far, recent data have shown hiring slowing gradually since April, but not sharply enough to convince markets that easing is imminent.

Treasury yields reflected this cautious outlook. On Friday, the yield on the two-year note, which is highly sensitive to Fed policy, edged slightly lower to 3.95 percent. Meanwhile, longer-term yields rose, with the 10-year Treasury yield climbing to 4.40 percent and the 30-year yield increasing to 4.94 percent. These moves contributed to a steeper yield curve as bond traders digest mixed economic signals.

Market odds for a quarter-point rate cut in September have dipped below 40 percent, and expectations for easing in October are no longer fully priced in. Treasury yields have generally risen this month, led by a 24 basis-point increase in the two-year note, contributing to one of the few months with negative returns for bond investors this year.

The upcoming jobs report is expected to show an increase of 104,000 new jobs in July, down from 147,000 in June, according to a survey of economists by Bloomberg. The unemployment rate is forecast to tick up slightly to 4.2 percent after an unexpected decline to 4.1 percent in June. Analysts note that the unemployment rate is influenced by both slower hiring and reduced labor supply, partly due to recent immigration enforcement measures.

Amar Reganti, a fixed-income strategist at Hartford Funds, emphasized the importance of the labor data for market direction: “The shoe that the market has consistently been waiting to drop is labor hiring. It’s been cooler, but still resilient.” Historically, the jobs report has caused significant volatility in Treasury yields, often moving two-year yields by about 10 basis points on the release day, double the typical reaction to inflation data.

The Fed’s median forecast, unchanged since March and June, projects the federal funds rate will decline to a range between 3.75 and 4 percent by year-end, implying two quarter-point cuts. Friday’s employment figures will likely influence whether the Fed follows that path or holds steady longer amid ongoing uncertainty around tariffs, trade negotiations, and inflation.In summary, bond traders and investors will be analyzing the July employment report for clear signals on the labor market’s health and the Federal Reserve’s potential rate-cut strategy, which remains a pivotal factor for U.S. economic outlooks heading into the fall.