

Markets see two-way action to strong jobs report

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude up, Dollar flat, Gold up
- **REAR VIEW:** NFP tops expectations, driven by strong private payroll growth; US unemployment rate ticks lower; Trump is reportedly considering exiting the North American trade pact; Weak US 10yr note auction; Fed's Schmid sees the labour market breakeven rate between 40-50k per month; Trump meets with Netanyahu, described meeting as very good and would prefer a deal with Iran; EIA crude stocks build more than expected; World's biggest nickel mine in Indonesia has been reportedly told to slash output by 70% to 12MT; New Pershing Square position in META
- **COMING UP:** **Data:** UK GDP Prelim. (Q4), GDP (Dec), US Weekly/Continuing Claims, Existing Home Sales (Jan). **Events:** IEA OMR, EU Informal Leaders Retreat. **Speakers:** RBA's Hunter; ECB's Cipollone, Lane, Nagel; BoC's Rogers. **Supply:** Italy, US. **Earnings:** Applied Materials, Arista Networks, Vertex Pharmaceuticals, Howmet Aerospace, Coinbase, American Electric Power, Hermes, L'Oreal, Siemens, Mercedes-Benz.

MARKET WRAP

Markets largely saw two-way trade on Wednesday. The focus point was on the NFP report, which overall was very strong in January, with the headline smashing expectations, unemployment rate ticking down, and wages ticking up. The initial reaction was upside in equity futures and the Dollar, and downside in T-notes and gold. However, after the initial move, the reaction started to fade gradually throughout the rest of the session. Alongside the report, we saw the annual BLS benchmark revisions; the total nonfarm payrolls were revised down in the year to March 2025 by 862k, deeper than the expected downward revisions of 825k but revised up from the preliminary estimate of 911k. The downward revisions remind us that the labour market may not be as robust as it seems, and perhaps could be a reason for the fading of the initial moves. Analysts were also cautious that the strength seen in January would not be sustained and that job growth was concentrated in certain sectors. Fed rate cut bets were pared with the first 25bps rate cut now fully priced by July (prev. June), but two rate cuts are still fully priced by year-end, more dovish than the Fed's median dot plot projection for 2026, which implies just one more rate cut. Attention largely turns to CPI on Friday. Stocks ultimately closed mixed, with the Russell underperforming and the Nasdaq outperforming. Sectors were predominantly firmer, with Energy and Staples leading the gains, while Communications and Financials lagged. Energy stocks tracked crude prices higher, while financials were weighed on continued AI disruption concerns. Crude prices were choppy, with upside seen on reports that Trump is sending another carrier to the Middle East if talks with Iran do not go well. However, weakness was seen amid commentary from Ukrainian President Zelensky that a deal on territory is the focus of the next talks with the US, albeit price action was choppy throughout the session. The T-note reversal post-NFP hit a snag after a weak 10-year auction, which saw the largest tail since August 2024.

US

NFP: Overall, the January US Jobs report was strong. Headline NFP rose 130k, well above the 70k forecast and above the top end of analyst estimates (-10k to +108k) and accelerating from the prior 50k. Even with Powell's December estimate of a 60k monthly overshoot from the BLS, the report is still strong. The unemployment rate dropped to 4.3% from 4.4%, despite expectations for this to be unchanged. The drop was also accompanied by an uptick in the participation rate, making the drop in unemployment even more notable. Within the establishment survey, private payrolls surged 172k, above the 70k forecast and above the analyst estimate range of 30-100k. Within the report, we saw the final annual BLS benchmark payroll revisions through to March 2025, which saw total jobs revised down by 862k, vs the preliminary estimate of 911k, and vs. the Bloomberg consensus of -825k. The BLS also highlighted that recent extreme weather had no discernible impact on the report. Overall, the strong labour market data bolsters the Fed's decision to pause as it reduces fears of a labour market downturn. However, it is just one report, and the Fed do like to look for the trends. Attention turns to CPI on Friday to see how the inflation side of the Fed's mandate is in the start of 2026. Oxford Economics highlight the report surprised to the strong side, but overstates emerging strength in the labour market. The desk say data is consistent with their view that labour market conditions have stabilised and warrant no change for their forecast on the economy. It also maintains its view that the Fed will be on hold until June.

FED's SCHMID (2028 voter, Hawk): The Kansas City Fed President suggested that the labour market breakeven rate is between 40-50k per month and does not believe that the labour market was showing cyclical weakness last year. Schmid believes it's appropriate to keep restrictive monetary policy with inflation close to 3%, and he is not seeing evidence that the current level of interest rates is restraining the economy. Further Fed rate cuts could allow higher inflation to persist for longer. He argued that productivity improvements could allow faster growth without inflation, but 'we are not there yet. Schmid added that the current inflation rate indicates still-strong demand is outpacing improvements in supply. Meanwhile, he noted that there are opportunities to reduce bank reserve demand and thus lower the Fed's balance sheet.

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED 7+ TICKS LOWER 112-09

Initial post-NFP downside faded before a weak auction capped the reversal. At settlement, 2-year +6.0bps at 3.514%, 3-year +5.2bps at 3.572%, 5-year +4.6bps at 3.745%, 7-year +4.0bps at 3.953%, 10-year +3.1bps at 4.176%, 20-year +3.2bps at 4.762%,

30-year +3.2bps at 4.820%.

THE DAY: T-notes meandered overnight and in the European morning before plummeting in the US morning after a stellar NFP report, seeing T-note futures (H6) fall from 112-19+ to a session low of 112-00. The report saw a strong beat on the headline, a move lower in the unemployment rate, and rising wages. The annual benchmark revisions through to March 2025 were -862k vs the preliminary estimate of -911k. The move was not sustained, however, with futures ultimately paring the majority of the move ahead of the 10-year T-note auction. The auction was ultimately weak, which saw futures pressured into settlement. It wasn't just T-notes that faded the post-NFP move - the initial reaction was buy dollar and stocks, sell T-notes, but ultimately both stocks and dollar also pared gains. The report was strong, but markets couldn't hold on to the initial moves - perhaps as eyes are turning to CPI on Friday for the next risk, or that it is just one month of data and the Fed prefer to look at trends. However, analysts at ING were warning that although it was a strong report, sector concentration is a huge concern. "The US added more jobs than expected in January, but sizeable downward revisions reveal that - outside of leisure & hospitality, private healthcare, and government - the economy has actually been consistently losing jobs. This suggests the risks remain tilted toward the Fed cutting rates more than the two reductions currently in our forecast". Meanwhile, Oxford Economics were highlighting that private payroll growth will not be sustained at recent rates.

SUPPLY

Bills

- US to sell USD 105bln of 4-week bills and USD 95bln of 8-week bills on 12th February.
- US sold USD 17-week bills at a high rate of 3.595%, B/C 3.38x

Notes

- The US sold USD 42bln of 10-year notes at a high yield of 4.177%, tailing the when issued by 1.4bps - the largest tail since the 3.1bps tail in August 2024. The bid-to-cover of 2.39x was below the prior 2.55x and the six auction average 2.51x. Meanwhile, direct demand was little changed at 22.08%, slightly above the 20.6% average, but the drop in indirect demand is what weighed on the auction. Indirect demand fell to 65.4% from 70.2%, below the 69.5% six-auction average. This left dealers with an above average 13.4% (prev. 8.8%, avg. 9.9%).
- US to sell USD 25bln in 30-year bonds on February 12th.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: March 0.0bps (prev. 4.9bps), April 4.2bps (prev. 10.7bps), June 16.4bps (prev. 25.7bps), December 51bps (prev. 57.9bps).**
- NY Fed RRP op demand at USD 1.05bln (prev. 1.45bln) across 6 counterparties (prev. 5).
- EFR at 3.64% (prev. 3.64%), volumes at USD 104bln (prev. 92bln) on February 10th
- SOFR at 3.65% (prev. 3.63%), volumes at USD 3.194tln (prev. 3.132tln) on February 10th

CRUDE

WTI (H6) SETTLED USD 0.67 HIGHER AT 64.63/BBL; BRENT (J6) SETTLED USD 0.60 HIGHER AT USD 69.40/BBL

- **The crude complex was firmer, albeit in choppy trade, amid a couple of headline catalysts.** Overnight and during the early hours of the European morning, benchmarks ground higher following Tuesday's reports that Trump threatened to send another carrier to the Middle East if talks with Tehran do not go well. Thereafter, WTI and Brent saw an immediate lift as Bloomberg reported that Trump is privately considering exiting the North American trade pact. Modest weakness was observed after Zelensky said a deal on territory is the focus point of the next talks with the US, but swiftly pared. Further pressure was seen following Trump's readout after meeting with Israel PM Netanyahu. Trump said that he insisted negotiations with Iran continue to see whether or not a deal can be reached, which would be his preference. Some fleeting upside was seen as WSJ echoed the Axios report on Wednesday, noting the US is readying a carrier to send to the Middle East.
- In the weekly EIA metrics, crude stocks saw a much larger build than expected, albeit not as large as last night's private figures. Distillates saw a greater draw than forecasted, and gasoline saw a surprise build.
- There was little reaction to the much stronger-than-expected US jobs report, which sparked immediate Dollar and equity strength, with weakness in spot gold and Treasuries. However, these moves had faded from extremes.
- For the record, WTI traded between USD 64.15-65.83/bbl and Brent 69.00-70.72/bbl.

EQUITIES

CLOSES: SPX +0.00% at 6,941, NDX +0.29% at 25,201, DJI -0.13% at 50,121, RUT -0.38% at 2,669

SECTORS: Financials -1.49%, Communication Services -1.31%, Consumer Discretionary -0.55%, Real Estate +0.05%, Technology +0.21%, Industrials +0.51%, Health +0.60%, Utilities +0.87%, Materials +1.30%, Consumer Staples +1.40%, Energy +2.59%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.11% at 6,041, Dax 40 -0.43% at 24,880, FTSE 100 +1.14% at 10,472, CAC 40 -0.18% at 8,313, FTSE MIB -0.62% at 46,511, IBEX 35 -0.43% at 18,045, PSI +1.31% at 9,071, SMI +0.39% at 13,571, AEX +0.48% at 1,009

STOCK SPECIFICS:

- **Cloudflare (NET)**: EPS & rev. topped w/ strong next Q & FY rev. outlook.
- **Vertiv (VRT)**: Profit beat w/ midpoint of next Q guide above exp.
- **Shopify (SHOP)**: Top line beat & to buyback shares for \$2bln
- **GlobalFoundries (GFS)**: Strong Q numbers & outlook
- **Ford (F)**: Rev. beat, guided stronger profits for '26 & highlighted progress in improving its core business & cost controls
- **Gilead (GILD)**: Guidance underwhelmed
- **NetEase (NTES)**: Top & bottom-line surpassed exp.
- **Robinhood (HOOD)**: Revenue short w/ both crypto & options trading rev. light & net deposit growth slowing.
- **Humana (HUM)**: Dismal FY EPS outlook.
- **Kraft Heinz (KHC)**: FY26 EPS view way short of St. consensus.
- **Lyft (LYFT)**: EBITDA and revenue light.
- **Unity Software (U)**: Next quarter revenue view disappoints.
- Pershing Square Annual Investor Letter says it took new investments in Meta (META) over the last 12 months.

FX

USD was mixed on Wednesday, failing to broadly capitalise on the stronger-than-expected NFP reading in January. On the surface, metrics were encouraging, headline printed 130k (exp. 70k), the unemployment rate ticked lower to 4.3% from 4.4% alongside an uptick in the participation rate. That said, private employment was behind most of the growth driving the headline, +172k (exp. 70k), to which Oxford Economics thinks it won't be sustained. Additionally, the final annual BLS benchmark payroll revisions through to March 2025, which saw total jobs revised down by 862k, (prelim 911k, and vs exp. 825k). Signalling that employment in retail, construction, manufacturing, tech, and financial services is being lost. Thereafter, we heard from Fed's Schmid (2028 voter), who believes the breakeven employment rate is 40-50k. DXY finished the day flat with the first full 25bps Fed rate cut pushed back to July from June.

G10FX strength was led by JPY and AUD, while CHF was at the bottom of the pile. Today's NFP figures seemingly dented the short-term case for new yearly **CHF** highs as US markets price in rates higher for longer. Meanwhile, JPY, which alongside many other G10 FX initially weakened on NFP, bounced back, in this case, paring all weakness seen. Note, a sharp bout of USD/JPY selling was seen over that time, once again eliciting speculation over MoF action. However, circumstances deem intervention here unlikely, given the ministry typically intervenes in environments that strengthen the JPY, like soft US data; additionally, Japan remains on holiday. USD/JPY traded between 152.55-154.65.

USD/CAD finished firmer but had pared the NFP-induced strength. Keeping the currency pair higher was a Bloomberg report, US President Trump is considering exiting the North American trade pact, asking his aides why he shouldn't withdraw from the agreement. USD/CAD hit highs of 1.3619 before paring to around 1.3570. Elsewhere, **AUD/USD** erased all NFP-USD strength. supported by earlier comments from RBA Deputy Governor Hauser, "Economy is not just 'dig it and ship it', many parts of the economy are doing quite well".

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