Sunrise

Friday, 02 October 2015

Resistance levels expected to hold on payrolls

All eyes are on the US payrolls report. We see risks slightly tilted to the downside of expectations, which should trigger a test of the upper bound of the current trading range for the Bund and the 10-year Note future.. However we don't anticipate a break higher and eye return action lower afterwards. Comments by Fed speakers, including vice-chair Fischer, are wildcards for trading.

Payrolls able to trigger directional move of the dollar?

Yesterday, the dollar was driven by the risk-on/risk-off theme, but both USD/JPY and EUR/USD held in familiar territory. Today, the payrolls and the assessment of several Fed governors will set the tone for USD trading. Are the payrolls strong enough to convince markets of a Fed rate hike and trigger a sustained rally of the dollar?

Calendar

Headlines

S&P	→
Eurostoxx50	↘
Nikkei	→
Oil	→
CRB	→
Gold	↘
2 yr US	→
10 yr US	↘
2 yr EMU	→
10 yr EMU	↘
EUR/USD	↗
USD/JPY	→
EUR/GBP	↗

- **European equities** closed in the red after a strong open, sliding down the whole day. **US equities closed little changed as the major indices reversed** an intraday dip. **Asian equities** are currently trading mixed, with China being on holiday for a week.
- **The US treasury warns that the US debt sealing might be hit soon**, with limited cash on hand, putting time pressure on the politicians to stop the political fight over the government's borrowing limit.
- The Japanese unemployment rate for August rose from 3.3% to 3.4%, but there is room for improvement with the job-to-application ratio rising to 1.23 from 1.21
- **Federal reserve governor Williams said** the risks to economy from abroad haven't worsened and that domestic conditions remain strong. He urged for a rate hike, since **uncertainty alone shouldn't stop the fed from hiking**.
- **Today the eco-calendar in the US contains payrolls report with markets keeping an eye on the nonfarm payrolls, the unemployment rate and the average hourly earnings for September. Several Fed members including Fed's Fischer will speak on monetary Policy**

Rates

German bonds rally with Bund testing highs.

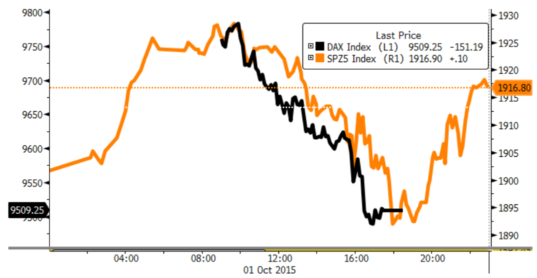
US Treasuries were little changed, but 2-yr underperformance ahead of payrolls.

	US yield	-1d
2	0,6605	0,0079
5	1,3734	-0,0097
10	2,0456	-0,0193
30	2,8546	-0,0242

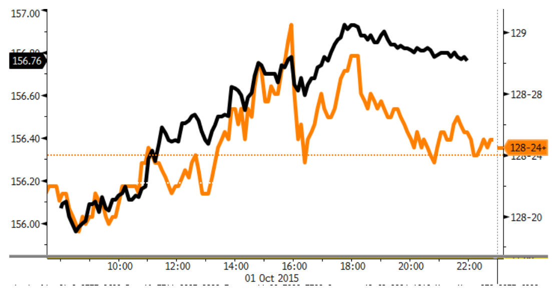
	DE yield	-1d
2	-0,2660	-0,0120
5	-0,0360	-0,0370
10	0,5520	-0,0460
30	1,3100	-0,0360

German Bund approaches important resistance

Sentiment on global core bond markets remains positive. Risk appetite turned into risk aversion during European dealings and triggered a safe haven bid for bonds. Especially the Bund profited, because the decline in European stocks was more outspoken than in US equities. After the (weak) closure of European equities, US equities rebounded. The Bund held on to its gains, but US Treasuries returned the (smaller intraday gains). The 10-yr yield spread US-Germany widened by 5 bps, the 2-yr spread by 3.2 bps. The Bund approached the upper bound of the recent trading range (156.84). **The underperformance of US Treasuries may be due to the price pattern in the equity markets, but also to the upcoming payrolls report. Fed Williams was very hawkish (see below), but his impact was not visible in the intraday price action, even as the 2-yr underperforms the 10-yr overnight.** At the time of writing, the German yield curve shifts 1.6 bps (2-yr) to 5.1 bps lower (10-yr), the curve bull flattening. Changes on the US yield curve are limited between +1.6 bps (2-yr) and 0 bps (10-yr). On intra-EMU bond markets, 10-yr yield spreads vs Germany narrow up to 3 bps (Ireland) with Greece outperforming (-9 bps).



S&P future (orange) & Dax (black).Similar pattern in European session, but scale decline Dax bigger. Later on, S&P rebounds direction (higher) in afternoon, despite equity strength.



Bund (black) & T-Note future (orange): Both rally higher (but scale Bund gains bigger), but T-Note declines when US equities rebound

Can payrolls keep rate hike expectations alive?

Upward revision August payrolls

Slight downward risks September payrolls

Unemployment rate unchanged?

Today the US Sept Nonfarm payrolls will be released. In August, **US non-farm payrolls** increased by 173 000, which was a big drop after solid payrolls for the previous three months. However, statistically the first release of the August payrolls is usually revised sharply upward. So, we expect August payrolls to be revised to above 200 000. For September, the consensus looking for a payrolls increase by 200 000. The ADP report already showed a decent pick-up in private sector hiring and the initial claims remained at a cyclical low level. The ISM employment sub-index was weaker at 50.1 though from 51.7 in August, but the consensus expects already a flat manufacturing employment figure. However, the service sector employment should be strong. Statistically, also September has a negative bias for the first reading and the survey week is falling very early. (12th was a Saturday) which might be slightly negative for the AHE and the length of the workweek. **Overall, the risks are for a slightly lower September outcome, however that would be compensated by upward revisions to the lower August payrolls. The unemployment rate** is expected to stabilize at the 5.1% that was reached in August, which is also within the Fed's target range of maximum sustainable employment (4.9% to 5.2%), but a downward surprise should have its impact.

R2	160,62	-1d
R1	156,96	
BUND	**156,7**	0,0000
S1	152,75	
S2	151,87	

Average hourly earnings are forecast to have increased by 0.2% M/M for September, increasing the annual rate to 2.4% Y/Y, but may fall short for statistical-technical reasons.

SF Fed Williams close to tipping point

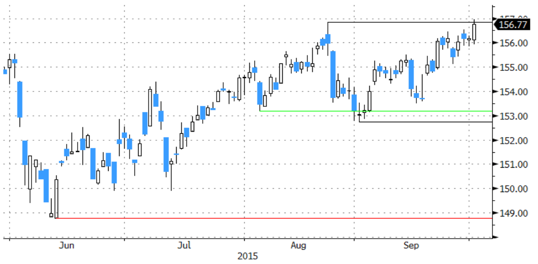
SF Fed governor Williams sounded somewhat hawkish yesterday though most of his remarks echoed comments on Monday. The decision to hold off on raising rates was a close call in September and it doesn't take a lot of information to tip the balance. Today's payrolls might be that key piece of info. Williams said that he is *"just looking for steady, continuing improvement in the labor market, continuing improvement in the economy. Above 100 000 or 150 000 would be good to me."* **A slower pace of payrolls growth at this stage suggests that the labour market is closer to being healed.** Williams' comments suggest that the bar isn't that high to flip in favour of a hike. As a voting member and close ally to Fed chairwoman Yellen, that's an important signal. He also confirmed that October is a "live" meeting. **Finally, he sharpened his language around the risk of financial imbalances again by calling for attention to rising asset price.** *"You don't let an economy rip, that usually ends badly",* he added.

Today: Payrolls Friday!

Overnight, Asian stocks markets trade marginally lower. Apart from SF Williams' comments, news flow is thin. The US Note future trades flat, but the front end of the US curve slightly underperforms. ECB Draghi said that the EMU has become more resilient and that growth is picking up.

Today's eco calendar focusses on the US payrolls report. Ahead of the release, trading will likely be thin and sideways. **We see risks for the payrolls slightly on the downside of expectations. That could trigger a test of the contract high in the US Note future (129-10+), but we don't expect a break.** In case of an upward surprise, the reaction (lower) could be larger given this week's positioning (for a weaker outcome) and yesterday's Fed Williams comments. Risk on equity markets is still fragile and remains a wildcard for trading. **After European closure, Fed's Harker, Fischer and Bullard speak. Given their profiles, they might add weight to Williams' recent hawkish comments which could further weigh on the front end of the US curve** (especially if vice chair Fischer is hawkish).

Technically, we eye rangebound trading for the Bund and US Note future. **(Bund: 152.75 – 156.84; US Note future 126-16+ - 129-10+). A test of the topside could occur on weaker payrolls, we don't anticipate sustained breaks higher.**



German Bund: First test of upper bound failed. In yield terms 0.47% is key support (currently 0.54%).

US Note future: trapped between 126-16+ and 129-10+

Currencies

R2	1,1714	-1d
R1	1,146	
EUR/USD	**1,1173**	0,0031
S1	1,1087	
S2	1,1017	

Payrolls to decide on next USD-move

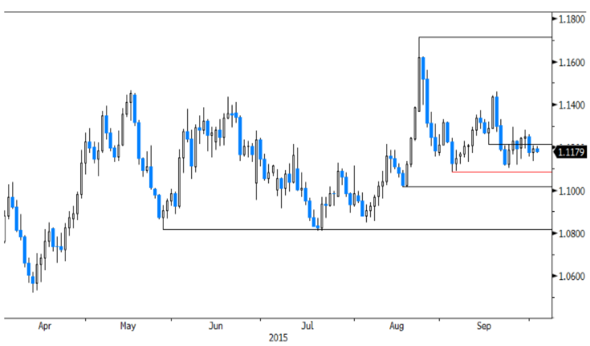
Dollar holding tight ranges as sentiment on risk swings

Yesterday trading started in risk-on modus, temporarily supportive for the dollar. However, the risk on sentiment dwindled during the day and gradually eroded USD strength. USD/JPY dropped below the 120 mark. At first, The dollar held relatively strong against the euro, but finally EUR/USD returned also to the 1.12 area, even as the decline of equities was reversed later in the US session. Short-term interest rates moved also in favour of the US currency, but the intraday link with the performance of the US currency was limited. EUR/USD ended the session at 1.1195 from 1.1177. USD/JPY closed the day at 119.93, little changed from 119.88 on Thursday.

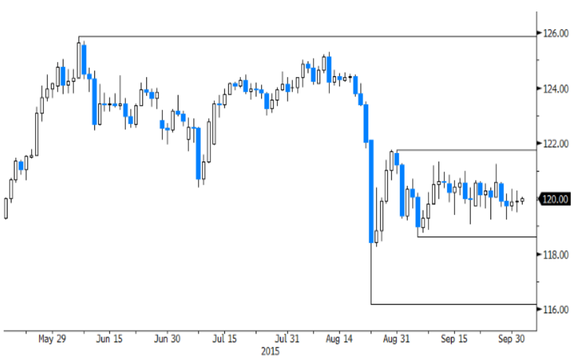
This morning, most Asian equity markets show moderate losses. August household spending in Japan was stronger than expected, but as usual, had no big impact on the yen. Equities in Hong Kong outperform as Chinese authorities took some selective/target measures to support the economy. Mainland China equity markets are still closed. USD/JPY is trading little changed in the 119 area. EUR/USD trades around 1.1175. All very familiar levels.

Payrolls to guide the next directional move of the dollar?

Today, only the US payrolls matter. The consensus expects 200 000 net jobs growth. The unemployment rate is expected stable at 5.1%. We see slight downside risk for the September payrolls, but a big upward revision for August. Such a scenario shouldn't be bad for the dollar. **Key question is whether the markets will see the payrolls report was good enough for the Fed to raise rates this year.** Fed's Williams said yesterday that that the hurdle for a Fed rate hike is low (payrolls growth of 100000/150000 is enough to tighten labour market further). Of course, the reaction of equities will affect the dollar, too. Later in the session, Fed's Harker, Bullard and Vice chair Fischer speak on monetary policy. **If Fed's Vice-chairman Fischer would turn more hawkish, it would be important for the dollar**. So, in a daily perspective **we prefer a slightly USD constructive scenario. The 1.1105/1.1087 support area is the first reference on the technical charts.**



EUR/USD holding a tight range ahead of the payrolls



USD/JPY holding near the 120 pivot

In a broader perspective, the global picture for the dollar (EUR/USD) hasn't changed. The dollar rebound ran into resistance at the end of last week, but for now EUR/USD is holding the established sideways consolidation pattern. **1.1087/1.1017 looks like a solid bottom for now. 1.1460 is a first interim resistance. 1.1714 is the line in the sand. If the policy divergence between the Fed and the ECB would become less obvious (delay in Fed rate hike expectations), EUR/USD might return toward the topside of this range.**

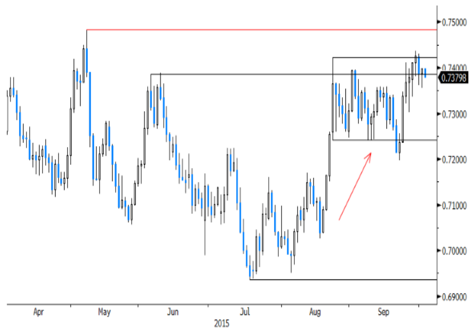
R2	0,7483	-1d
R1	0,7437	
EUR/GBP	**0,7373**	0,0011
S1	0,7196	
S2	0,715	

EUR/GBP holding within reach of the range top

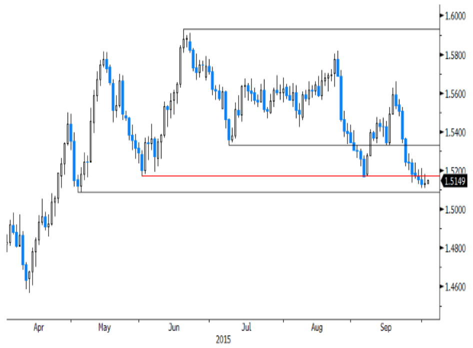
Yesterday, sterling trading was driven by technical considerations. The UK manufacturing PMI declined slightly from 51.6 to 51.5 (51.3 was expected). Cable rebounded to the 1.5180 area on dollar weakness after a disappointing US manufacturing ISM, but returned most of the gains as US equities rebounded later in the session. The pair closed the session at 1.5131, almost unchanged from Wednesday (1.5128). EUR/GBP initially traded with a slight negative bias as EUR/USD hardly profited from receding sentiment on risk. The late session rebound of EUR/USD also brought EUR/GBP back to the 0.7400 area.

Today, the UK construction PMI is expected to rise from 57.3 to 57.5, confirming a good momentum in the sector. A good report might be slightly supportive for sterling, but the market reaction to this indictor is usually very modest. The services PMI to be published on Monday has more market moving potential.

From a technical point of view, EUR/GBP is still trading in the upper part of the trading range which is marked by the 0.7423/0.7483 boundaries. The 0.7423 was extensively tested, but no sustain break occurred. Trading north of 0.7483 would deteriorate the sterling short-term picture, which is not our preferred scenario. Even so, partial stop-loss protection on EUR/GBP shorts can still be considered.



EUR/GBP: holding near the recent highs/range top



Cable: downside test continues

Calendar

Friday, 2 October		Consensus	Previous
US			
14:30	**Change in Nonfarm Payrolls (Sep)**	**202k**	**173k**
14:30	Two-Month Payroll Net Revision (Sep)	--	--
14:30	Change in Private Payrolls (Sep)	198k	140k
14:30	Change in Manufact. Payrolls (Sep)	0k	-17k
14:30	**Unemployment Rate (Sep)**	**5.1%**	**5.1%**
14:30	**Average Hourly Earnings MoM/YoY (Sep)**	**0.2%/2.4%**	**0.3%/2.2%**
14:30	Average Weekly Hours All Employees (Sep)	34.6	34.6
15:45	ISM New York (Sep)	--	51.1
16:00	Factory Orders (Aug)	-1.3%	0.4%
16:00	Factory Orders Ex Trans (Aug)	--	-0.6%
Japan			
01:30	Jobless Rate (Aug)	3.3%	3.3%
01:30	Job-To-Applicant Ratio (Aug)	1.21	1.21
01:30	Overall Household Spending YoY (Aug)	0.3%	-0.2%
01:50	Monetary Base YoY (Sep)	--	33.3%
UK			
10:30	Markit/CIPS UK Construction PMI (Sep)	57.5	57.3
EMU			
11:00	PPI MoM/YoY (Aug)	-0.6%/-2.4%	-0.1%/-2.1%
Norway			
10:00	Unemployment Rate (Sep)	2.9%	3.1%
Spain			
09:00	Unemployment MoM Net ('000s) (Sep)	21.1	21.7
Events			
19:00	**Fischer Addresses Boston Fed Conference on Monetary Policy**		

10-year	td	-1d	2 -year	td	-1d	STOCKS		-1d
US	2,05	-0,02	US	0,66	0,01	DOW	16272	16272,01
DE	0,55	-0,04	DE	-0,27	-0,01	NASDAQ	for Exch - NQI	#VALUE!
BE	0,87	-0,04	BE	-0,19	0,00	NIKKEI	17725	17725,13
UK	1,76	-0,01	UK	0,53	-0,02	DAX	9509,25	9509,25
JP	0,32	-0,01	JP	0,01	0,00	DJ euro-50	3069	3069,05

							USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,142	-0,02
3y	0,099	1,008	1,123	Euribor-1	-0,11	0,00	Libor-1 USD	0,51	0,51
5y	0,325	1,408	1,415	Euribor-3	-0,04	0,00	Libor-3 USD	0,58	0,58
10y	0,935	2,014	1,809	Euribor-6	0,03	0,00	Libor-6 USD	0,75	0,75

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1172	0,0030	EUR/JPY	134,08	0,26		192,5104	1110,2	48,09
USD/JPY	120,03	-0,09	EUR/GBP	0,7375	0,0013	-1d	-1,25	-2,86	-0,67
GBP/USD	1,5143	0,0015	EUR/CHF	1,0925	0,0042				
AUD/USD	0,7033	-0,0019	EUR/SEK	9,3687	0,01				
USD/CAD	1,3233	-0,0070	EUR/NOK	9,4332	-0,06				

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