



## Sunrise

Friday, 05 February 2016

### Rates: Can weak US payrolls still push bonds higher?

Core bond markets are quite extremely positioned following the January market turmoil and flight to safety. Currently, the US markets also discounts no rate hikes in the next two years and inflation expectations are very low. How bad should the Payrolls be to give US (German) bonds another push higher?

### Currencies: dollar extends decline

Yesterday, the USD declined further as investors adapted positions for a softer Fed-tightening path. Today, the focus is on the US payrolls. A poor report would be negative for the dollar, but quite some bad news should already be discounted after the recent decline in US yields and in 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	↗

- **US Equities** ended slightly higher following a volatile trading session. The S&P rose 0.15% led by materials and industrials. This morning, **Asian shares trade mixed**. Japanese stocks continue to suffer from a stronger yen.
- **The US economy remains sound and will overcome recent market turbulence** allowing the Fed to continue tightening its monetary policy as planned, Fed's **Mester** said overnight, adding that she is not about to cut her expectations of continued US economic growth and labour market improvement.
- IMF Chair Lagarde said in a speech yesterday **China can avoid a hard landing** and shift to a lower more sustainable growth rate if the government reforms state enterprises and sticks to a more market-driven and well-communicated exchange rate policy. **She called on advanced economies to support growth** through accommodative monetary policy and infrastructure spending.
- **The People's Bank of China fixed the Chinese yuan 0.16% stronger against the US dollar**, the first significant appreciation against the US dollar since early December. The move follows however a significant weakening of the US dollar yesterday. Next week, Chinese markets will be shut for the Lunar New Year holidays.
- **Gold prices extended their rebound yesterday**, rising 1.4% to \$1155/ounce, supported by a weaker US dollar and safe haven flows. **Crude oil prices** failed to safeguard their gains, ending yesterday's session lower. The Brent trades currently around \$34.25/barrel.
- Today, the **focus will be on the US payrolls report**, while also the trade balance will be released. ECB's Constancio speaks in Madrid.

# Rates

No strong directionality in bond and other markets as US payrolls loom

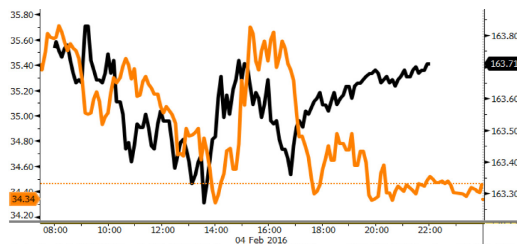
Quite substantial spread widening of peripheral 10-yr yields.

	US yield	-1d
2	0,7062	-0,0239
5	1,2289	-0,0487
10	1,8409	-0,0537
30	2,6786	-0,0458

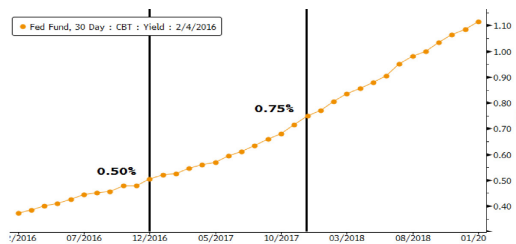
	DE yield	-1d
2	-0,4830	0,0020
5	-0,3160	0,0030
10	0,3020	0,0200
30	1,0224	-0,0051

## More choppy trading ahead of US payrolls

Global core bonds traded according to Wednesday's script. The Bund opened somewhat lower, slid further during the morning session and erased the losses in the afternoon and late US session. ECB Draghi, Knot and Mersch sounded dovish, but nothing more than we have heard in recent days. They couldn't prevent a morning profit taking move. The Bond market turned North in early US dealings, as did oil prices. **Some rumours about Turkey invading Syria** may have played a role, even as bonds reacted ahead of oil and as we witnessed little reaction on equities. It is also strange that bonds would rise on higher oil prices. The Bund made a second run lower which was reversed too. Eventually the Bund closed near opening levels, which means a 45 ticks loss. Admittedly now oil was going down too. Equities traded sideways during the session. **US eco data had little impact. Initial claims printed a bit above consensus, while productivity was still weaker than expected at -3% Q/a and factory orders were disappointing too. In a daily perspective**, changes on the German yield curve ranged between +1.4 bps (2-yr) and + 2.8 bps (10-yr and beyond). The US yield curve shifted lower by 2 to 4.7 bps (10-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany were 6 to 7 bps wider with Greece (+12 bps) underperforming.



Bund future (black) and Brent oil (orange): Volatile trading but Bund ends near opening levels. Oil modestly lower after strong rally on Wednesday



Fed Fund strip curve: nearly no rate increases discounted. End 2016: 0.50%, end 2017: 0.75%. Markets laugh at Fed's dot plot

Downside risks for US payrolls and for unemployment rate

Weaker AHE (on yearly basis)

## US Payrolls draw all attention

After a very strong Q4, the US labour market recovery is expected to have slowed somewhat in January with the consensus looking for an increase in **non-farm payrolls** by 190 000, down from 292 000 in December and an average of 284 000 in Q4. The unemployment rate is expected unchanged at 5.0%, for a third consecutive month, and average hourly earnings are expected to have increased by 0.3% M/M, pushing the annual rate down from 2.5% Y/Y to 2.2% Y/Y. For the payrolls, we believe that **a downward surprise is likely** due to less favourable weather conditions and market turmoil, while also hiring at couriers and warehouses probably slowed after the Christmas selling season. In addition, also Wednesday's non-manufacturing ISM pointed to a significant slowdown in hiring at the start of the year. The ADP report, on the contrary, remained strong, but its correlation with the official BLS reading is often poor. For the **unemployment rate we believe that a lower outcome is not excluded** following a stable outcome in the previous two months. For the wage data however, we have no reasons to distance ourselves from the consensus.

The US **trade balance** is expected to show a limited widening in the deficit in December, from \$42.37 billion to \$43.20 billion. Although imports probably declined due to lower oil prices, also exports are expected poor due to poor demand from abroad.

### Today: Weaker payrolls, but limited upside?

R2	165	-1d
R1	164,22	
<b>BUND</b>	<b>163,86</b>	0,0400
S1	160,38	
S2	156,4	

**Overnight**, Asian equity indices trade mixed to slightly higher with Japan again underperforming on the back of the strong yen. **Cleveland Fed Mester** (voter) said that she still expects that the US economy warrants more gradual rate hikes even if there are some risks to the outlook. Most of her colleagues are more hesitant and markets didn't react to her hawkish comments. The US Note future even trades marginally higher suggesting a neutral/decent opening for the Bund.

**Today's** eco calendar contains January payrolls. We see risks on the downside of expectations. **That's a positive for US Treasuries. However, given the extremely dovish positioning of core bond markets and overbought conditions, we wonder whether there's still much short term upside. After a spike higher (on weaker payrolls), some profit taking could occur going into the weekend.** Because of the positioning, the market reaction could be asymmetrical and larger in case of a stronger payrolls outcome, triggered by some short (US rates) covering. **Unemployment rate and average hourly earnings** will also be determinant for the market reaction.(see graph above for FF rate expectations)

**Technically, the German 10-yr yield fell below final support (0.42%).**

Weakness in equity market/oil prices and the dovish turn of global central banks (ECB, BoE, BoJ and Fed) pulled yields lower since the start of the year.

**The break lower opens the way for a complete retracement towards the all-time low at 0.05%. The US 10-yr yield dropped below 1.9%. From a technical point of view, this also suggests more downside towards 1.64%. Longer term sentiment remains positive for core bonds.**



German Bund: dovish central banks give Bund another boost



US Note future: short term upside limited, even if payrolls disappoint??

# Currencies

## Dollar extends decline ahead of US payrolls

R2	1,1495	-1d
R1	1,1239	
EUR/USD	1,11955	0,0122
S1	1,106	
S2	1,081	

## Asian equities show mixed picture

## USD holding near the recent lows

## Dollar extends decline

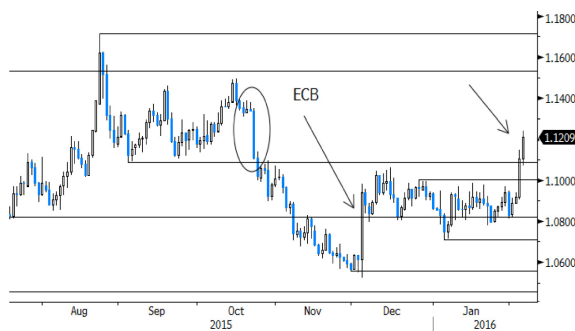
Yesterday, the USD sell-off continued, albeit at a slightly slower pace. There was little economic news. Investors continue to adapt positions away from the US currency as chances on another short term Fed rate hike crumbled. Soft talk from ECB's Draghi didn't cap the topside of EUR/USD. This time, there was no obvious one-on-one link between oil and the dollar. EUR/USD closed the session at 1.1209 (from 1.1105). USD/JPY dropped to close the session at 116.78, down from 117.90 on Wednesday.

**This morning**, most Asian equities trade little changed to slightly lower. Japan underperforms due the rebound of the yen. The PBOC again fixed the yuan stronger against a globally weakening dollar. The off-shore yuan preserves most of yesterday's gains against the dollar. On Sunday, the PBOC publishes its foreign reserves data, which will give an indication of the PBOC interventions to support the yuan. The **Aussie dollar** drifts off the recent highs after disappointing Australian retail sales data. At AUD/USD 71.80, the Aussie dollar still preserves most of this week's gains though. EUR/USD (1.12) trades little changed from yesterday's close. USD/JPY (116.85) holds within reach of the recent lows.

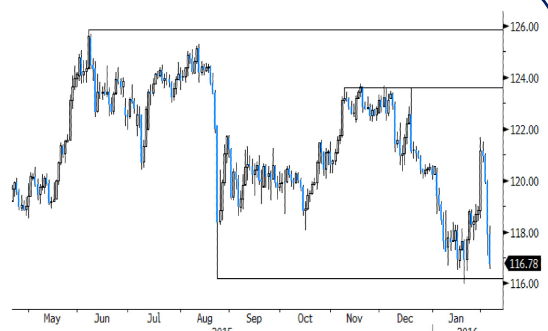
## The focus turns to the US payrolls report

## Will the payrolls be strong enough to slow the USD decline?

**Today**, the focus for global currency trading will be on the US payrolls report. Consensus expects US job growth to have slowed in January to 190 000, down from 292 000. For the payrolls, we see **downward risks** due to less favourable weather conditions and as volatility on financial markets might have weighed on sentiment. **A poor US payrolls report would be a negative for the dollar.** **However, after the recent decline in short-term US yields and after the recent sharp decline of the dollar, quite some bad news should already be discounted.** Most expected Fed tightening for 2016 is no longer discounted.



EUR/USD: USD correction continues



USD/JPY: pre-BOJ correction low within reach

**We are keen to see the reaction of the dollar in case of a moderate undershoot of the payrolls. Will the USD set new lows against the euro and the yen or will there be signs of a short-term USD exhaustion move?** A good payrolls report might trigger some profit taking on recent USD shorts. In this context, we keep a close eye at the technical charts.

EUR/USD now arrived at levels that could become interesting to reconsider EUR/USD shorts as we assume that the threat of more ECB easing should finally cap the topside in EUR/USD. That said, we first want a sign that there is no follow-through price action on the recent USD sell-off and that a USD bottoming out process starts building. We look out whether the post-payrolls price action provides such signal.

**From a technical point of view**, EUR/USD broke above the 1.1060/1.1124 resistance area (15 Dec top: 62% retracement). This is a negative for the dollar. The short-term correction high stands at 1.1239. Next important resistance kicks in at 1.1495. **The picture for USD/JPY improved temporarily as the pair rebounded above 120 after Friday's BOJ policy decision. However, the gains evaporated very soon. The 115.98 pre-BOJ correction low is an important point of reverence. One can expect the BOJ to send warning signals in case of a break below this level. A technical rebound is possible after the recent sharp setback, but we stay very cautious on USD/JPY long exposure as global uncertainty persists.**

### EUR/GBP nears the recent top

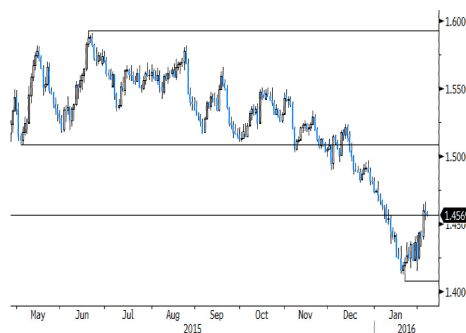
R2	0,7755	-1d
R1	0,7702	
EUR/GBP	<b>0,7687</b>	0,0086
S1	0,7525	
S2	0,7313	

**Yesterday** morning sterling trading was mainly driven by the swings in the dollar as investors counted down to the BoE's policy announcement. Cable set a new correction top in the 1.4665 area. EUR/GBP initially held stable in the low 0.76 area. **Sterling ceded ground in the last hour before the BoE decision.** The BoE as expected left its policy unchanged. The vote was 9-0 as McCafferty joined the majority. The BoE cut its 2016 growth and inflation forecasts. It also cut the wage growth forecasts. The policy assessment and inflation report confirm that a BoE rate hike has been delayed 'sine die'. At the press conference, BoE governor Carney mentioned downside risks, but also reiterated that the next BoE move is likely a rate hike. In volatile trading, sterling lost some further ground against the euro and the dollar. However, the losses were modest as a soft BoE approach was already largely discounted. EUR/GBP closed the session at 0.7683 (from 0.7604). Cable closed the day at 1.4589 (from 1.4603).

**.Today**, there are no important eco data in the UK. So, sterling trading will be driven by the price swings in the major dollar cross rates as market look out for the US payrolls. Of late, the rebound of EUR/USD as also pushed EUR/GBP higher. If the payrolls are not that weak, the rise in EUR/GBP might slow and this might also cap the rebound. EUR/GBP 0.7756 is the first resistance (correction top). **The medium term technical picture of sterling against the euro remains negative as EUR/GBP broke above the 0.7493 Oct top. Next big resistance stands at 0.7875.** A return below EUR/GBP 0.74 would be a first indication that sterling enters calmer waters.



EUR/GBP: nears the correction top



GBP/USD: rally slows

# Calendar

Friday, 5 February		Consensus	Previous
<b>US</b>			
14:30	Trade Balance (Dec)	-\$43.20b	-\$42.37b
14:30	Change in Nonfarm Payrolls (Jan)	190k	292k
14:30	Change in Private Payrolls (Jan)	180k	275k
14:30	Unemployment Rate (Jan)	5.0%	5.0%
14:30	Average Hourly Earnings MoM/YoY (Jan)	0.3%/2.2%	0.0%/2.5%
14:30	Average Weekly Hours All Employees (Jan)	34.5	34.5
14:30	Labor Force Participation Rate (Jan)	--	62.6%
<b>Canada</b>			
14:30	Unemployment Rate (Jan)	7.1%	7.1%
14:30	Net Change in Employment (Jan)	6.0k	22.8k
<b>Japan</b>			
06:00	Leading Index CI (Dec P)	A: 102.0	103.5
06:00	Coincident Index (Dec P)	A: 111.2	111.9
<b>Germany</b>			
08:00	Factory Orders MoM YoY (Dec)	-0.5% / -1.4%	1.5% / 2.1%
<b>France</b>			
08:45	Trade Balance (Dec)	-4400m	-4630m
08:45	Current Account Balance (Dec)	--	-1.4b
<b>Norway</b>			
10:00	Industrial Production MoM YoY (Dec)	--/--	-0.8%/-1.8%
10:00	Ind Prod Manufacturing MoM YoY (Dec)	-0.6%/--	1.0%/-6.6%
<b>Sweden</b>			
09:30	Budget Balance (Jan)	--	-98.5b
09:30	Industrial Production MoM/NSA YoY (Dec)	-0.5%/3.5%	1.4%/6.2%
09:30	Industrial Orders MoM/NSA YoY (Dec)	--/--	9.3%/15.1%
09:30	Service Production MoM SA/YoY WDA (Dec)	0.4%/2.7%	-0.2%/2.3%
<b>Events</b>			
13:00	ECB Vice President Constancio Speaks in Madrid		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,84	-0,05	US	0,71	-0,02	DOW	16417 16416,58
DE	0,30	0,02	DE	-0,48	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,59	-0,01	BE	-0,38	0,00	NIKKEI	16820 16819,59
UK	1,57	0,04	UK	0,36	-0,01	DAX	9393,36 9393,36
JP	0,03	-0,03	JP	-0,21	-0,02	DJ euro-50	2905 2905,30

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	Eonia EUR	-0,231	0,016
3y	-0,142	0,903	0,879	Euribor-1	-0,23	Libor-1 USD	0,51	0,51
5y	0,055	1,181	1,099	Euribor-3	-0,16	Libor-3 USD	0,59	0,59
10y	0,641	1,719	1,564	Euribor-6	-0,10	Libor-6 USD	0,74	0,74

Currencies	-1d	Currencies	-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,11955 0,0122	EUR/JPY	130,72 -0,05		164,1872	1154,2	34,26
USD/JPY	116,79 -1,31	EUR/GBP	0,7687 0,0086	-1d	4,01	12,20	-1,12
GBP/USD	1,4557 -0,0009	EUR/CHF	1,1125 -0,0016				
AUD/USD	0,7194 0,0021	EUR/SEK	9,4117 0,06				
USD/CAD	1,3715 -0,0046	EUR/NOK	9,5179 0,04				

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