



Sunrise

Monday, 11 January 2016

Rates: Core bonds shrug off stellar payrolls

Core bonds extended gains as risk off sentiment trumped strong US payrolls report and traders expect turmoil to resume. Today, with an empty market calendar, risk sentiment, commodities and technicals may drive bond markets. 10-yr US Note future took out first resistance and the Bund looks set to test 160.66 resistance.

Currencies: Good payrolls hardly support the dollar

On Friday, global markets and the dollar entered calm waters. However, it was short-lived. A strong payrolls report didn't improve global risk sentiment and failed to support the dollar. This morning, risk sentiment remains fragile, but the dollar holds stable. Sterling stays in the defensive as EUR/GBP trades north of 0.7493.

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	↗

- **Despite a very strong US payrolls report, US Equities failed to end their losing streak.** The S&P dropped another 1% to end the first week of the year with a loss of more than 6%. This morning, **Asian shares** show broad-based losses.
- **The People's Bank of China fixed the mid-point for the yuan slightly higher** this morning for a second straight session. The move however failed to really calm markets with **Chinese equities remaining under pressure** at the start of the new week, losing up to 5%.
- **Even though four rate hikes this year is the median projection, it is not baked in the cake,** Fed's **Williams** said on Friday adding that it could as well be faster or slower depending on economic developments at home and abroad.
- **Chinese consumer price inflation edged up slightly in December,** from 1.5% to 1.6% Y/Y in line with expectations, supported by rising food prices. In 2015, Chinese inflation rose 1.4%, its slowest annual rise since 2009 and well below the goal of keeping inflation below 3%.
- **Crude oil prices remain under pressure this morning.** The Brent oil price loses 2%, trading around \$32.80/barrel as volatility in China continues to weigh.
- Today, the **eco calendar is empty,** both in the US and euro zone. **After the US close, the Q4 earnings season starts with results of Alcoa.**

Rates

Core bonds shrug off stellar payrolls

Core bonds withstand strong payrolls as markets fear China-induced turmoil isn't over yet

	US yield	-1d
2	0,9358	-0,0521
5	1,5597	-0,0818
10	2,1156	-0,0616
30	2,9086	-0,0344

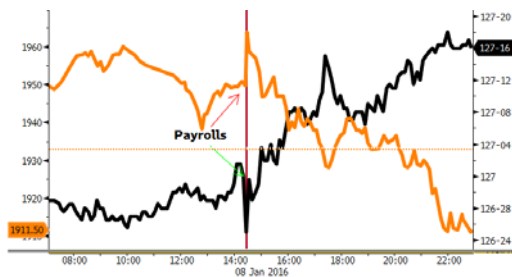
Core bonds withstand strong payrolls as markets fear China-induced turmoil isn't over yet.

	DE yield	-1d
2	-0,3900	-0,0080
5	-0,1314	-0,0202
10	0,5155	-0,0251
30	1,3686	-0,0356

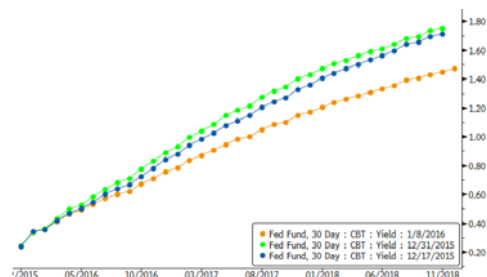
Global core bonds extended gains despite stellar payrolls, a return of calmness in Asian equity markets and a stabilization of the oil price. US equities tried to find their composure, but didn't succeed and slid lower going into the weekend. US Treasuries, and in after-trade Bunds, profited from the US equity weakness and eked out modest gains. In a daily perspective, the US yield curve shifted lower with the belly outperforming the wings and yields down between 1.6 bps (2 and 30-yr) and about 4 bps at the 5-to-10 sector. In EMU, the curve bull flattened with yields 1.2 to 3.4 bps lower. On intra-EMU bond markets, 10-yr yield spread changes were again minor, ranging below -2 bps and +2 bps.

The reaction on a stellar payrolls report was mind-boggling. Bonds initially fell while equities and the dollar gained. However, the absence of follow through selling (bonds) and buying (equities, dollar) sent shivers through the investment community. What cannot go up (equities, dollar) must come down and the opposite was true for bonds. This suggests either disappointment about the tepid wage inflation (the only small negative of the report) or most likely that despite today's temporary calm, investors fear more troubles coming from China with ripple effects on equity and commodity markets. The biggest fear could be a potential wave of deflation stemming from a Chinese slowdown and further devaluation of the renminbi, even if Friday's fixing was stronger for the first session in nine days.

The eco calendar is empty today, both in the US and euro zone apart from speeches by Fed's Lockhart and Kaplan. Atlanta Fed Lockhart is a moderate who supports the majority inside the FOMC. He won't vote in 2016 after the Jan 26 meetings. (rotation regional members at the Jan 26 meeting). He speaks about the economy and policy. We will listen carefully whether the strong December payrolls have changed his views and on the other hand how he perceives the recent market turmoil. The speech of the new Dallas Fed governor Kaplan is interesting as we know little about his views on the economy and policy. He won't vote in 2016, but participates in the discussions and he submits his projections at the quarterly meetings. So, he will affect to some extent the FOMC decisions. China will remain in the focus, as it is unlikely that Friday's relatively calm will stay for long.



T-Note future (black) and S&P future (orange): Strange reaction on strong payrolls. Equities slid lower afterwards and bonds eke out gains



FF strip curve: Green (after FOMC meeting) blue (31 Dec) and orange (Friday): Curve shifts lower as markets don't believe the Fed's 4 dots in 2016 amid turmoil.

R2	161,71	-1d
R1	160,66	
BUND	159,81	0,2900
S1	156,4	
S2	154,54	

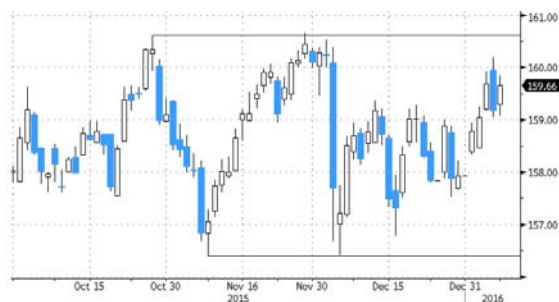
Heavy supply

EMU bond supply heats up this week with auctions scheduled in the **Netherlands, Austria, Germany, Italy and Spain**. Tomorrow, the Dutch debt agency taps the on the run 20-yr DSL (€1-1.5B 2.5% Jan2033). The Austrian treasury taps the on the run 10-yr RAGB (1.2% Oct2025) and 20-yr RAGB (2.4% May2034) for a combined €1.2B. On Wednesday, the German Finanzagentur launches a new 10-yr Bund (€5B Feb2026). The Italian debt agency taps the on the run 3-yr BTP (€1.5-2B 0.30% Oct2018), 7-yr BTP (€2.5-3B 1.45% Sep2022) and 15-yr BTP (€1.25-1.75B 1.65% Mar2032). On Thursday, the Spanish treasury concludes with tapping the on the run 3-yr Bono (0.25% Apr2018) & 5-yr Bono (1.15% Jul2020) and the off the run 10-yr Obligacion (5.4% Jan2023). This week's auctions won't be supported by redemptions. **In the US, the Treasury starts its mid-month refinancing operation** tomorrow with a \$24B 3-yr Note auction, followed by a \$21B 10-yr Note auction on Wednesday and a \$13B 30-yr Bond auction on Thursday.

Today: Profit taking on the back of strong payrolls

Overnight, Chinese stock markets lead the down-leg once again with losses of up to 4%. Other Asian indices trade around 1% lower, in line with the US at the end of Friday's dealings. The US Note future came off the intraday high, but the Bund could still open somewhat stronger.

Today, the eco calendar is empty apart from Fed speakers (see above). This suggests that risk sentiment and evolutions on commodity markets is key for core bonds. Friday's soft market reaction on stellar payrolls indicates that Asian/Chinese turmoil is key for trading at this stage. **That's a positive for core bond markets**. The US Note future broke above the upper bound of the sideways range since November (127-10) and the Bund is heading for a test the upper bound of a similar range (160.66). If risk aversion persists, a temporary break higher is not excluded. **We put our sell-on-up ticks strategy on hold, at least until risk sentiment improves again**. Longer term, we believe that December policy action by the ECB (failing to deliver on expected easing) and the Fed (start tightening cycle) puts a bottom below yields. On intra-EMU bond markets, Spanish bonds could underperform as the Catalan political deadlock ended with the nomination of Puigdemont.



German Bund: Sideways trading range. Heading for test topside in case risk aversion persists.



US Note future: Dovish reaction on payrolls suggests that Asian/Chinese turmoil is key for markets at this stage.

Currencies

Dollar still looking for a bottom despite strong payrolls

On Friday, global tensions eased temporary, but the dollar failed to profit from a good US payrolls report

R2	1,106	-1d
R1	1,097	
EUR/USD	1,0928	0,0057
S1	1,0711	
S2	1,0524	

PBOC sets yuan fixing little changed this morning to stem investor unease.

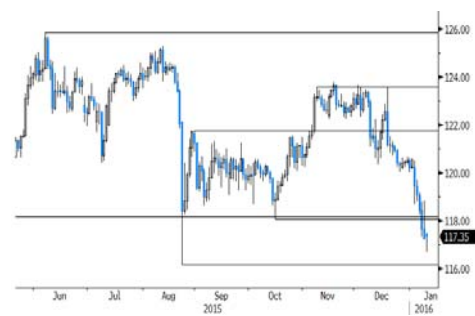
Chinese equities trade in the red, but dollar reverses early losses

On Friday, the decline of the dollar took a breather as the imminent stress from the China crisis eased and as investors counted down to the US payrolls report. The payrolls were strong with 292 000 additional jobs in December and strong other details. The dollar gained temporary a few ticks against the euro and the yen, but the gains were already erased a couple of minutes later: very disappointed for the dollar. Equities resumed their downtrend as global uncertainty prevailed. EUR/USD closed the session at 1.0922 (from 1.0932 on Thursday). USD/JPY ended the day at 117.26 (from 117.67)

This morning, the decline of Asian/Chinese equities resumed. During the weekend, the China CPI rose slightly to 1.6% Y/Y, in line with expectations. However, markets focused on the December PPI, stable at -5.9%, while a slightly 'rise' to -5.8% was expected. It was the 48th negative reading in a row. The PBOC set the fixing of the yuan reference rate marginally stronger. Market speculation on a protracted depreciation of the yuan was an important source of market uncertainty of late. However, today's PBOC action still wasn't enough to remove this uncertainty. The risk-off trade persists. Oil (32.76\$/barrel, near low) and other commodities (copper new low) stay under pressure. In thin liquidity conditions, the South African rand fell off a cliff this morning, touching new all-time lows against the euro and the dollar. The dollar opened under modest pressure against the euro and the yen but the initial losses are reversed even as Asia equities stay in the red (Shanghai -3%). EUR/USD trades in the 1.0915 area; USD/JPY in the 117.35 area.



EUR/USD: dollar fails to profit from good payrolls



USD/JPY Key 116.18 support comes on the radar

Empty eco calendar in the US and EMU

Technical dollar trading likely

Today, there are no important eco data in the US or in Europe. Fed's Lockhart and Fed's Kaplan will speak on the US economy. The risk-off trade in Asia persist, but US equity futures are currently little changed ahead of the start of the earnings season. So, the jury is still out whether the risk-off trade persists later today and how it affects the dollar. Our best guess is that USD trading will be mainly technical in nature and confined to tight ranges. The global calendar is back loaded this week (Chinese trade data and US retail sales and PPI).

For now, China driven volatility isn't over yet. Earlier last week, we ignored the EUR/USD decline, even as the technical picture turned negative after the break

below 1.08. We look to sell EUR/USD higher in the trading range (e.g closer to the 1.10/1.11 area) and **are gradually coming closer to this resistance area (EUR/USD touched 1.0970 this morning)**. So, is the dollar able to build a bottom, allowing us to reestablish USD long positions?.

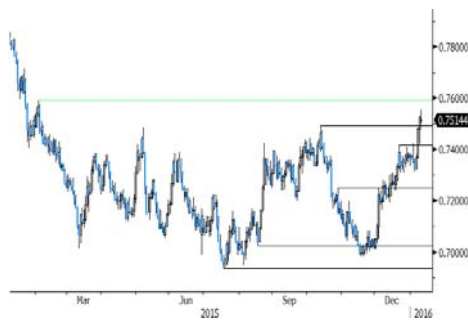
From a technical point of view, EUR/USD failed to regain important resistances at 1.1087 (breakdown) and 1.1124 (62% retracement from the October high). Last week, EUR/USD failed to sustain below 1.0796 support (07 Dec low). Next support is at 1.0650 (76% retracement off 1.0524/1.1060) and at 1.0524. On the upside, 1.1004 (reaction top) is a first reference. Next resistance comes in at 1.1060/1.1124 (15 Dec top/62% retracement) **The picture for USD/JPY remains negative below 120.** Next support comes in at 116.18 (August low). The pair is moving into oversold territory and this morning's price action looks like a short-term exhaustion move, but confirmation is needed.

EUR/GBP breaks key 0.7493 resistance t

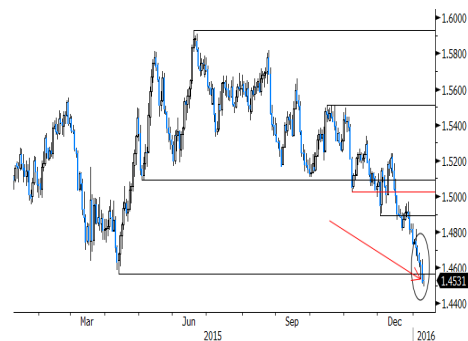
On Friday, the easing of the China crisis brought UK markets and sterling temporary in calmer waters. **The UK external trade data were slightly disappointing, but largely ignored.** The global market reaction to a good US payrolls report was disappointing. The global risk-off trade resumed and weighed on sterling. Lingering uncertainty on Brexit continued to weigh on sterling. **EUR/GBP closed the session at 0.7529, breaking above the key 0.7493 resistance. Cable set also a multi-year low and closed the session at 1.4517.**

R2	0,7593	-1d
R1	0,7555	
EUR/GBP	0,7515	0,0076
S1	0,7424	
S2	0,7313	

Today, the UK calendar is empty. On Thursday, the focus will be on the UK production data and, even more, **on the BoE policy meeting and the Minutes of that meeting.** A loss of momentum in UK activity (especially in manufacturing), ongoing low headline inflation and modest wage growth and global uncertainty are good reasons for the BoE to keep a wait-and-see modus on a first rate hike. **This is weighing on sterling.** Part of the less positive news should already be discounted after the recent sterling decline. **A sustained rebound will be difficult unless there is progress in the Brexit debate or unless risk sentiment improves.** The break of the EUR/GBP 0.7493 Oct top is a negative for sterling. **Next resistance stands in at 0.7593 (Feb 2015 top).** Sterling is moving in oversold territory against the euro and the dollar, but for now it is no good enough reason to rush into sterling longs.



EUR/GBP breaks 0.7493 resistance painting multiple bottom formation on the charts



Cable sets multi-year low

Calendar

Monday, 11 January		Consensus	Previous
US			
16:00	Labor Market Conditions Index Change (Dec)	--	0.5
Norway			
10:00	CPI MoM/YoY (Dec)	--/--	0.4%/2.8%
10:00	CPI Underlying MoM/YoY (Dec)	--/--	0.2%/3.1%
10:00	PPI including Oil MoM/YoY (Dec)	--/--	0.5%/-6.4%
Spain			
09:00	Industrial Output NSA YoY/SA YoY (Nov)	--/4.2%	-0.3%/4.0%
09:00	Industrial Production MoM (Nov)	--	0.2%
Events			
After the US Close, Alcoa kicks off the US Q4 Earnings Season			
15:45	ECB Publishes Weekly QE Details		
18:40	Fed's Lockhart Speaks on U.S. Economic Outlook in Atlanta		
23:50	Fed's Kaplan Speaks on Economy and Monetary Policy in Dallas		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,12	-0,06	US	0,94	-0,05	DOW	16346,45
DE	0,52	-0,03	DE	-0,39	-0,01	NASDAQ	16346,45
BE	0,87	-0,03	BE	-0,36	-0,02	NIKKEI	17698,96
UK	1,76	-0,03	UK	0,52	0,01	DAX	9849,34
JP	0,24	0,00	JP	-0,02	-0,01	DJ euro-50	3033,47

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,007	1,189	1,111	Euribor-1	-0,22	0,00	Eonia EUR	-0,235	-0,002
5y	0,239	1,478	1,384	Euribor-3	-0,14	-0,01	Libor-1 USD	0,51	0,51
10y	0,880	1,953	1,816	Euribor-6	-0,05	-0,01	Libor-3 USD	0,59	0,59
							Libor-6 USD	0,75	0,75

Currencies	-1d	Currencies	-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,0928	0,0057	EUR/JPY	127,94	-0,81	168,54	1106,7
USD/JPY	117,12	-1,34	EUR/GBP	0,7515	0,0076	-1d	-0,91
GBP/USD	1,4533	-0,0076	EUR/CHF	1,0854	0,0003		4,70
AUD/USD	0,6963	-0,0098	EUR/SEK	9,2874	0,05		-1,61
USD/CAD	1,4167	0,0097	EUR/NOK	9,7152	0,05		

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