



## Sunrise

Friday, 04 March 2016

### Rates: Will the payrolls push the US 10yr yield above 1.85%?

US Treasuries dropped below first support levels this week, painting a double top on the charts. Anything but a huge miss in today's payrolls release should confirm this break and push the US 10yr yield above 1.85%. Apart from the headline number, the unemployment rate and average hourly earnings will grab a lot of attention.

### Currencies: dollar falling prey to profit taking ahead of the payrolls

Yesterday, the dollar lost modestly ground. EUR/USD shorts apparently shifted to a more neutral positioning ahead of the payrolls. Sterling held strong despite another poor UK PMI release. Today, the focus is on the US payrolls. A strong US report can push the dollar for a test of important resistance levels against the euro and yen.

### 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 reversed early losses to end higher for a third straight session** as the non-manufacturing ISM ended its two-month slide. **This morning, most Asian shares trade in positive territory**, but Chinese stocks trade mixed.
- **Fed's Kaplan called yesterday for patience in raising interest rates**, saying they need to further assess the impact of slowing global growth and tighter financial conditions on the US economy, but added that the US economy will likely be resilient this year.
- **China plans to bundle billions of dollars' worth of non-performing loans and sell them to global investors, the FT reports**, saying the massive securitisation programme would represent the latest tactic to reduce the debt pile which is as big as 230% of GDP.
- **Bank of Japan Governor Kuroda said in parliament today that they are not thinking about lowering rates further right now**, but added that they will adjust policy further without hesitation if needed.
- **Brent crude oil prices trade slightly higher this morning**, hovering around \$37.30/barrel after data showed yesterday that US oil production fell to its lowest level since November 2014. **Gold futures** closed yesterday at its highest level in one year.
- Today, **all eyes are on the US payrolls report**, but also the US trade balance will be released.

# Rates

## Dull trading ahead of US payrolls

Core bonds eke out slim (US) to modest (German) gains

Curves flatten

Peripherals stabilize

	US yield	-1d
2	0,8416	-0,0195
5	1,3381	-0,0176
10	1,8321	-0,0173
30	2,6526	-0,0350

	DE yield	-1d
2	-0,5750	-0,0290
5	-0,3900	-0,0330
10	0,1700	-0,0420
30	0,9602	-0,0547

Yesterday, global core bonds consolidated in a narrow range in a dull session awaiting the outcome of today's US payrolls. They nevertheless eked out minimal (US) to modest gains (Germany). German bonds outperformed US ones. In a daily perspective, the German yield curve shifted 3.1 bps (2-yr) to 4.4 bps (30-yr) lower. The US yield curve flattened with yield changes varying between + 0.4 bps (2-yr) and -2.6 bps (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany ended nearly unchanged with Greece (-18 bps) outperforming. European data (upward revision final services PMI's and stronger retail sales) were largely ignored. Similarly, US eco data had little impact. Initial claims were a bit higher than expected, nonfarm productivity (-2.2% in Q4) was revised higher and the non-manufacturing ISM (53.4) stabilized. US Treasuries barely budged. German and US bonds went up towards the end of the end of European trading, but there was no clear-cut driver, also as the usual correlation with equities and oil prices was absent. Maybe it was some short covering ahead of the payrolls. US Treasuries eased later on. Equities closed slightly higher, oil nearly unchanged.

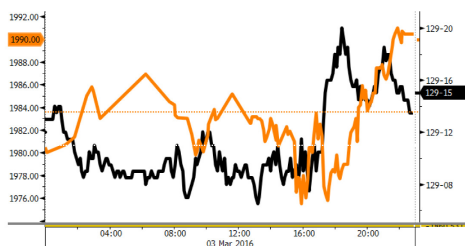
## Today, all eyes on the US payrolls

Following a very strong Q4, hiring in the US slowed significantly at the start of the year. In January, US non-farm payrolls increased by 151 000, down from 262 000 in December. For February, a pick-up to 195 000 is expected, still below the levels seen at the end of last year, but broadly in line with last year's trend. Most recent US economic data have been mixed, but labour market indicators remained strong. The claims dropped again close to last year's lows and also the ADP report showed private sector job creation of above 200K. As a result, we also expect a rebound in payroll growth, with even a limited upward surprise not excluded. The pick-up will mainly be based in the services sector, while hiring in the goods-producing sector is forecast to remain limited. Last month however, temporary help payrolls dropped sharply, a trend that was also seen in previous years, and therefore is unlikely to give clear guidance for overall payroll growth. The unemployment rate is expected to stay unchanged at 4.9%, after having dropped in January. We have no reasons to distance ourselves from the consensus as the downtrend seems to have slowed as more people are returning to the labour force. Also wage data remain interesting. Average hourly earnings are forecast unchanged at 2.5% Y/Y, while a monthly increase by 0.2% M/M is expected. US trade data will receive less attention. A limited widening in the deficit from \$43.4 to \$44 billion is expected.

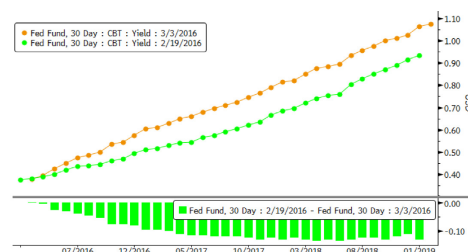
Rebound in payrolls with risk for limited upward surprise

Unemployment rate expected unchanged

Will higher participation rate & higher wages herald a still stronger labour market with risks of overheating later on?



T-Note future (black) and S&P future (orange) (intraday): Dull trading with one move, but weak intra-market correlation



FF rate strip curve: Shift higher in past two weeks, as US eco data improve and oil price rises (risk-on)

### Strong payrolls needed to continue this week's trends

R2	167	-1d
R1	166,63	
<b>BUND</b>	<b>165,69</b>	0,5500
S1	163,79	
S2	163,25	

**Overnight**, most Asian equity markets trade with a small positive bias in line with WS yesterday evening. Oil prices are marginally higher and ready for a test of \$37.55/barrel resistance. The US Note future trades stable though suggesting a neutral opening for the Bund as well.

**Today's eco calendar heats up with the US payrolls. We expect the headline number to be near consensus (195k).** A significant miss (>50k) should be needed to trigger a significant directional move (bear flattening for an upward surprise, bull steepening for a weaker number). **In case of a neutral outcome, attention will rapidly shift to the participation rate, average hourly earnings and the unemployment rate. Upward surprises in the former two and a lower outcome for the latter are negative for US Treasuries and vice versa. In case of weakness, it will be interesting to see whether this week's technical breaks hold.**

**Technically**, the US Note future (June contract!) painted a double top on the chart. **The break below the 129-26 support level, suggests more downside.** The US 10-yr yield is testing 1.85% resistance. A break higher would confirm the break lower of the US Note future. **On equity markets, the break of the S&P 500 above 1950 is also technically relevant. This improvement in risks sentiment is additionally negative for US Treasuries.** Finally, we also keep a close eye on oil prices which are on the brink of firmly breaking above the neckline of a double bottom. Higher oil prices are also negative for core bonds. The technical picture of the Bund is also deteriorating with a break below the steep uptrendline. In yield terms, a break above 0.30% is necessary though to make the picture neutral from bullish.



German Bund: Break below steep uptrendline first sign of changing technical picture (bullish -> neutral)



US Note future (June contract): break below double top suggests more downside

# Currencies

*Dollar falls prey to profit taking ahead of key US payrolls report*

R2	1,1376	-1d
R1	1,1068	
EUR/USD	1,0952	0,0094
S1	1,081	
S2	1,0711	

*Cautious risk on trade continues in Asia*

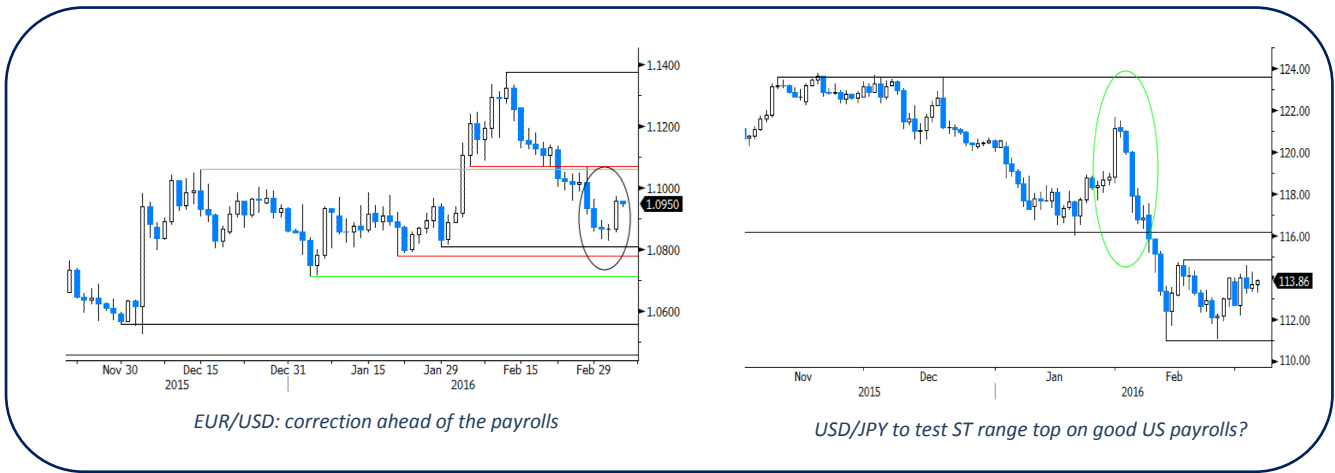
*Impact on USD/JPY and EUR/USD remains limited.*

## Dollar declines going into the payrolls

On Thursday, the dollar rebound took a breather. USD/JPY struggled to sustain north of 114 even as US equities reversed early losses. EUR/USD also rebounded well north of 1.09. Investors took profit on EUR/USD shorts after a protracted decline recently and a failed test of the 1.0810 support. The US ISM non-manufacturing was slightly better than expected, but didn't really help the dollar. EUR/USD closed the session at 1.0957 (from 1.0868 on Wednesday). USD/JPY set again a slightly disappointing performance. The pair closed the session at 113.69 (from 113.48).

**This morning**, sentiment on risk remains cautiously positive in Asia. Commodities like oil and copper continue their gradually uptrend and supports regional sentiment. **AUD/USD is near the key 0.7385 resistance area/range top.** Markets also keep an eye at the at the National Party Meeting in China, looking for additional measures to stimulate the economy. The PBOC fixed the yuan substantially stronger this morning at 6.5248. There is also market talk on PBOC action as the off-shore yuan gains further ground. **The dollar hardly profits from the risk-on sentiment in Asia. USD/JPY trades in the 113.85 area. EUR/USD is changing hands in the 1.0955 area.**

**Today**, the focus for (global) currency trading will be on the US payrolls report. For February, a pick-up from 151 000 to 195 000 is expected, broadly in line with last year's trend. Most recent US economic data were mixed, but labour market indicators remained strong. **We also expect a rebound in payroll growth. Even a limited upward surprise is not excluded. The unemployment rate is expected to stay unchanged at 4.9%**, after having dropped in January. Also **wage** data remain interesting. Average hourly earnings are forecast unchanged at 2.5% Y/Y, while a monthly increase by 0.2% M/M is expected.



**US payrolls key for USD trading today**

**A good report might propel the USD for test of key resistance levels**

Earlier this week, global markets' fears on US growth eased. Initially this helped the dollar. However, **yesterday the US currency fell prey to profit taking.** Investors apparently wanted a more neutral positioning going into the payrolls. Despite yesterday's correction, we see potential for further USD gains in case of a good payrolls report as markets have still discounted very little Fed tightening further out this year. **In this respect, wage growth and/or a further decline in the unemployment rate might be at least as important as the headline job growth.** In case of a good US payrolls report it will be interesting to see whether the dollar is able to test (or even take out) key resistance against the yen (USD/JPY 114.87) and EUR/USD (1.0810/1.0778 area). A break beyond these levels would be a positive technical sign for the US currency.

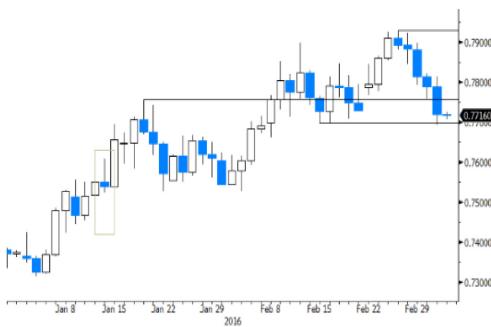
**Cable jumping sharply higher**

R2	0,8066	-1d
R1	0,7929	
<b>EUR/GBP</b>	<b>0,7733</b>	0,0023
S1	0,7691	
S2	0,7526	

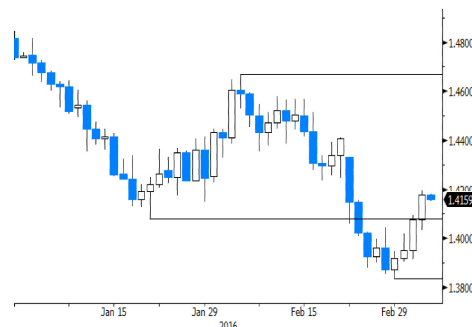
Yesterday, sterling slightly lost ground early in European dealings. Earlier in the week, both the UK manufacturing and construction PMI missed market expectations, but had no lasting negative impact on sterling. Yesterday's price pattern was a similar. **The UK services PMI declined sharply from 55.6 to 52.7, while only a limited decline to 55.1 was expect. Sterling lost a few ticks against the euro and the dollar.** EUR/GBP 'jumped' to the 0.7745 area and Cable dropped temporary to 1.4033. However, given the big negative surprise, sterling losses remained very limited. In the afternoon, EUR/USD gains spilled over to EUR/GBP and cable. EUR/GBP settled in a tight range close to, but mostly slightly below 0.7750. Cable even succeeded an impressive rebound on USD weakness. EUR/GBP closed the session at 0.7728 (from 0.7719 on Wednesday). Cable jumped sharply higher and close the session at 1.4178 (from 1.4078).

**Today**, only UK car registrations are on the agenda. Yesterday's price action of sterling was again constructive. The UK currency held strong despite poor UK eco data. This suggests a further unwinding of sterling Brexit shorts. Today, the focus will be on the dollar moves as the payrolls are on the agenda. However, we see room for further moderate sterling strength.

**The medium term technical picture of sterling against the euro remains negative as EUR/GBP broke above the 0.7493 Oct top. The pair cleared the 0.7898 resistance last week. 0.8066 is the next important resistance. Short-term, EUR/GBP tested a first support at 0.7596 on Wednesday. A sustained break below this level would be a first indication that sterling sentiment improves.**



EUR/GBP: Nearing a first important support



GBP/USD: looking for a bottom

# Calendar

Friday, 4 March		Consensus	Previous
<b>US</b>			
14:30	Trade Balance (Jan)	-\$44.0b	-\$43.36b
14:30	Change in Nonfarm Payrolls (Feb)	195k	151k
14:30	Change in Private Payrolls (Feb)	190k	158k
14:30	Unemployment Rate (Feb)	4.9%	4.9%
14:30	Average Hourly Earnings MoM / YoY (Feb)	0.2%/2.5%	0.5%/2.5%
14:30	Average Weekly Hours All Employees (Feb)	34.6	34.6
14:30	Labor Force Participation Rate (Feb)	62.8%	62.7%
<b>Japan</b>			
01:00	Labor Cash Earnings YoY (Jan)	A 0.4%	0.1%
02:30	Real Cash Earnings YoY (Jan)	A 0.4%	-0.1%
<b>UK</b>			
10:00	New Car Registrations YoY (Feb)	--	2.9%
<b>Germany</b>			
09:30	Markit Germany Construction PMI (Feb)	--	57.9
<b>Italy</b>			
10:00	GDP WDA QoQ / YoY (4Q F)	0.1% / 1.0%	0.1%/1.0%
<b>Sweden</b>			
09:30	Industrial Production MoM YoY (Jan)	0.5% / 5.7%	-2.9%/0.3%
09:30	Industrial Orders MoM YoY (Jan)	--	-9.0%/1.4%
09:30	Service Production MoM YoY (Jan)	--	2.2%/6.0%
<b>Events</b>			
19:00	Fed's Kaplan Speaks in Dallas		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,83	-0,02	US	0,84	-0,02	DOW	16944 16943,90
DE	0,17	-0,04	DE	-0,58	-0,03	NASDAQ	for Exch - NQI #VALUE!
BE	0,51	-0,03	BE	-0,44	-0,01	NIKKEI	17015 17014,78
UK	1,42	-0,05	UK	0,35	0,00	DAX	9751,92 9751,92
JP	-0,03	-0,02	JP	-0,22	0,00	DJ euro-50	3013 3012,87

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,238 -0,004
3y	-0,192	0,999	0,826	Euribor-1	-0,27	0,00	Libor-1 USD	0,51 0,51
5y	-0,035	1,235	0,972	Euribor-3	-0,21	0,00	Libor-3 USD	0,59 0,59
10y	0,538	1,659	1,396	Euribor-6	-0,13	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0952	0,0094	EUR/JPY	124,63	0,78		164,6151	1261,9	37,29
USD/JPY	113,81	-0,28	EUR/GBP	0,7733	0,0023	-1d	0,75	20,50	0,43
GBP/USD	1,4158	0,0081	EUR/CHF	1,0857	0,0029				
AUD/USD	0,7368	0,0057	EUR/SEK	9,3428	-0,01				
USD/CAD	1,3410	-0,0002	EUR/NOK	9,3940	-0,02				

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