



Sunrise

Wednesday, 04 November 2015

Rates: Core bonds remain on the defensive as curves steepen

Strong equities and at times better eco data suggest the global soft patch may soon be over. This could lead to a Fed lift-off in December. The ECB most likely will ease policy further. This may lead to further underperformance of US Treasuries versus Bunds and more spread narrowing of peripheral yield spreads.

Currencies: dollar enjoys additional interest rate support

Yesterday, the dollar remained well bid even as the global equity rally shifted into a lower gear. However rising interest rate differentials between the US and Germany kept EUR/USD under pressure. Today, decent US ADP labour market and non-manufacturing PMI reports might continue to support 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 and US equities** closed yesterday's trading session with modest gains, Oil & Gas and Basic Resources were the biggest movers. Overnight, **Asian equities** are running hot, with most indices noting strong gains.
- **Solid Japanese and Chinese services reports fuel the equity rally.** Japanese Services PMI rose from 51.4 to 52.2. Chinese Caixin PMI services rose from 50.5 to 52.0, both for October.
- **Irish services sector continues to expand strongly in October**, but has slowed down from its 63.4 high in July, declining from 62.4 to 60.1 in October.
- **Oil prices jumped** in the afternoon trading, **after news of supply disruptions** in Brazil and Libya, Brent crude jumped 3.5% higher, currently at 50.5\$/barrel.
- On the **corporate calendar** figure the earnings releases from **ING and M&S (pre-market), Facebook, MetLife and Prudential (post-market)**.
- Today, the **eco-calendar** contains more market moving releases with in the **US** the **ADP employment change** for October and the **ISM non-manufacturing**. In the **UK**, the **services PMI** data and in the **EMU** the final reading of **the services PMI**. **Fed's Yellen, Dudley, Harker and Brainard will speak.**

Rates

Core bonds hold downward bias

More losses for core bonds

Short end German curve outperforms

Peripheral spreads narrow

Yesterday, global core bonds traded once again with a downward bias after an initial attempt to rally higher failed. The post-FOMC sell-off continues. In a daily perspective, the US yield curve bear steepened with yields 1.3 bps (2-yr) to 4.8 bps (30-yr) higher. Changes on the German yield curve ranged between -1.6 bps (2-yr) and +4.5 bps (30-yr). **US eco data** were mixed with very strong and stronger than expected October car sales and weaker-than-expected September factory orders. Strong consumption will please the Fed who raised its assessment for domestic demand at the October 27 FOMC meeting. However, we cannot say that they were influential in bond trading. On **intra-EMU bond markets**, 10-yr yield spreads versus Germany narrowed up to 3 bps with Greece (-24 bps) and Portugal (-5 bps) outperforming.

	US yield	-1d
2	0,7698	0,0124
5	1,5909	0,0412
10	2,2088	0,0307
30	2,9879	0,0458

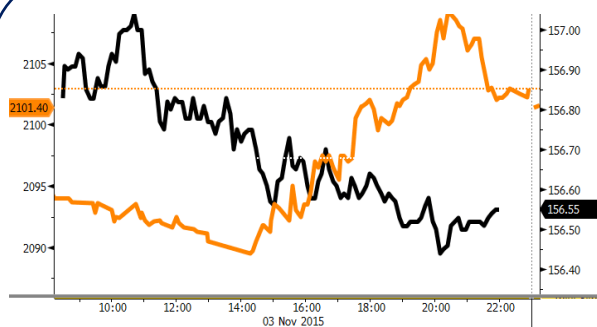
More upward surprises business confidence?

What will Dudley tell us on economy and policy?

Another batch of key business confidence data

Overnight, the Chinese Caixan services PMI rose to 50.5 in October from 52 in September, pushing the composite PMI to 49.9 from 48, as also the manufacturing PMI went higher. The US **ADP employment** is expected to have grown by 180k in October, following 200k growth in September. We side with the consensus. The October **non-manufacturing ISM** is expected to decrease marginally to 56.5, coming from 56.9 in September. We see no reasons to distance ourselves from consensus. In the **EMU**, the **Markit services PMI** is expected to remain stable at 54.2 for the final reading of October. Fed Yellen and Dudley speak. Chair Yellen testifies on bank regulation and thus should refrain from comments on policy and the economy. NY Fed **Dudley is an influential FOMC member**. He supported the FOMC decision that in December the pro and cons of a rate hike would be examined, but sounded some time ago more hesitant than before on a 2015 lift-off. So, it will be interesting whether he tweaks his comments.

	DE yield	-1d
2	-0,3030	-0,0010
5	-0,0560	-0,0090
10	0,5760	0,0100
30	1,3480	0,0350



Bund future (black) and S&P (future) (intraday): sell-off core bonds resumed, but started ahead of the rebound of equities.



S&P 500 takes one step closer to the highs. Will it go for a test even ahead of the payrolls?

R2	160,62	-1d
R1	158,6	
BUND	156,65	-0,0300
S1	155,89	
S2	155,71	

Further downside for US Treasuries?

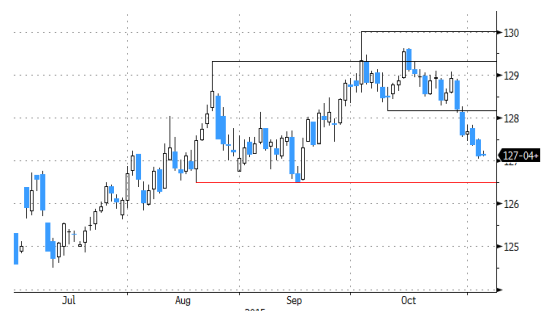
Overnight, Asian stock markets eke out good gains with China outperforming on the back of stronger than expected non-manufacturing PMI's. PBOC governor Zhou Xiaochuan also signalled that an exchange link between Shenzhen and Hong Kong will start this year. ECB Draghi, after European closure, merely confirmed his comments at the October press conference. **That's a longer term bullish signal for EMU bond markets (spread narrowing versus Germany) & the Bunds (outperformance versus US Treasuries).**

Today's eco calendar is interesting, especially in the US with the ADP employment, trade balance and non-manufacturing ISM. We believe that data will remain solid, which is a negative for US Treasuries as it further boosts the case of a December lift-off. Heavyweight NY Fed governor Dudley speaks on the economy. Dudley was in favour of a 2015 lift-off, but sounded very concerned at his latest public appearance. If he signals that he's firmly back in the "2015 camp", that's an additional negative for US Treasuries. Other Fed speakers today (Brainard, Harker, Yellen) are unlikely to touch on monetary policy. A further rebound in oil prices or on equity markets would be an additional negative today.

Longer term, the Fed bought an option for a December lift-off, though the central bank remains data-dependent. In case of solid eco data, that's a longer term negative for US Treasuries. Technically, the US Note future dropped below first support at 128-05+. **We believe that there is more downside with next support at 126-16.** The ECB on the other hand keeps a firm easing bias, which underpins EMU bond markets. Therefore, we expect only limited spill over from higher US rates to Europe. US/German yield spreads should widen on this clear divide in monetary policy stance.



German Bund: off the highs following Fed, but uptrend remains in place



US Note future: More downside after hawkish Fed

Currencies

USD holding supported by rising interest rate support

Asian equities extend the risk-on rally

USD holding near the recent highs

R2	1,114	-1d
R1	1,1096	
EUR/USD	1,09495	-0,0076
S1	1,0848	
S2	1,0715	

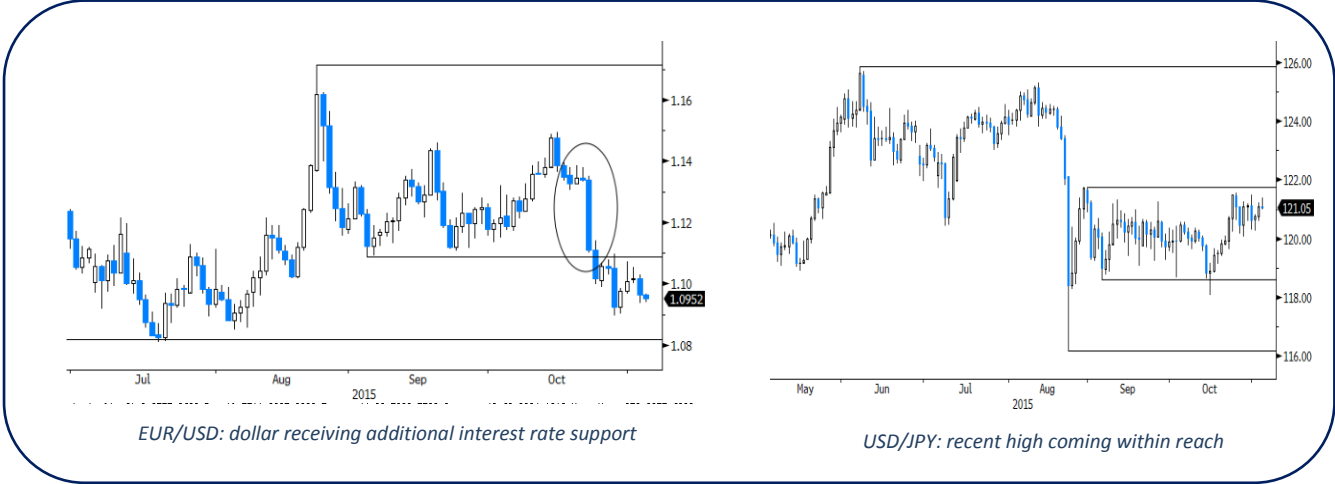
Services confidence and ADP key factors for USD trading today

Dollar enjoys additional interest rate support

On Tuesday, the dollar continued to trade with a positive bias even as the global equity rally initially slowed in Europe. There was little high profile news to guide USD trading. However, this time interest rate differentials helped the US currency. The 2-year yield spread between the US and Germany reached a new cycle high (107 bp). EUR/USD closed the session at 1.0964 (from 1.1016 on Monday). USD/JPY ended the session at 120.07 from 120.76.

Overnight, Asian equity markets extended their rebound with China outperforming. The China Caixin services PMI rebounded from 50.5 to 52.0, signalling a potential bottoming out process in this part of the Chinese economy. Chinese confidence data were also better than expected. There is seldom a one-to-one relationship between Japanese data and markets. Nevertheless, Japanese equities joined the risk-on rally in Asia, maybe supported by better data in Japan and China. USD/JPY continues to trade north of the 121 barrier. EUR/USD is holding near the recent low in the 1.0950 area.

Later today, markets will look out for the final services PMI's in the EMU and the non-manufacturing PMI in the US. We don't have strong reasons to take a different view from the consensus for the EMU PMI's. Even so, this figure continues to suggest decent growth in the sector. We don't have the impression that it will be a big issue for ECB policy. In the US, ADP labour growth is expected to slow to 180 000 from 200 000 the previous month. This remains well above recent job growth as indicated by the payrolls. The US traded deficit is expected to decline from \$48 bln to \$41 bln. Last but not least, the US non-manufacturing PMI is expected little changed 54.5 (from 54.4), indicating further good growth in the sector. Sentiment on risk wasn't that bad of late and if the data meets market consensus (or if they come out better than expected), markets will consider them as supporting the case of a Fed rate hike in December. So, the odds for the dollar are to maintain the recent gains, or even extend the recent rebound. 2-yr interest rate differentials between the US and Germany are holding near the cycle highs (109 bp).



EUR/USD: dollar receiving additional interest rate support

USD/JPY: recent high coming within reach

In a day-to day perspective, equities and the dollar hold remarkably strong. At some point a correction on the risk-on rally will occur and might trigger some moderate profit taking in the dollar, too. However, for now, there is no signal of such a change in sentiment yet. So, the working assumption is that the dollar can stay relatively strong going into the key US eco data (payrolls) later this week.

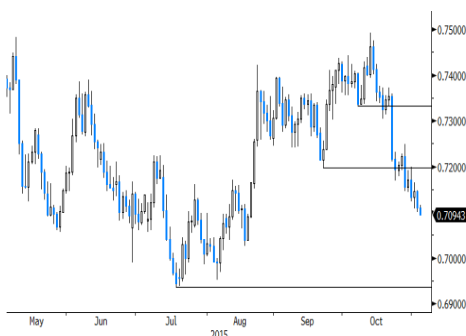
Over the previous two weeks; the market focus changed in favour of the dollar. At the ECB press conference, ECB Draghi surprised markets by suggesting that additional easing was forthcoming. This pushed EUR/USD below the key 1.1087/1.1105 support. Last week's Fed policy statement 'confirmed' a policy divergence between the Fed and ECB, pushing EUR/USD further south in the LT consolidation pattern. 1.0819 is a first important support area. The targets of the multiple top with neckline in the 1.1087/1.1105 area stand in the low 1.07 area. Some short-term consolidation on the recent USD rally is possible, but there is no reason to fight the euro negative/USD positive tide.

R2	0,7374	-1d
R1	0,725	
EUR/GBP	0,7098	-0,0046
S1	0,7026	
S2	0,6936	

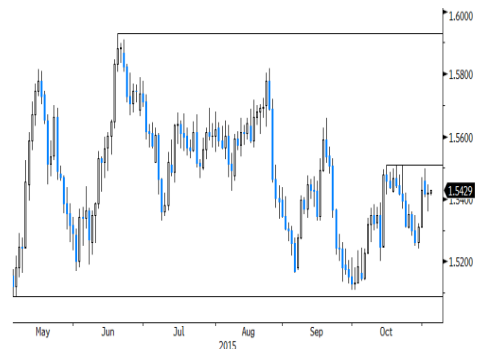
EUR/GBP drifting south

Yesterday, the UK construction PMI declined slightly from 59.9 to 58.8, in line with expectations and confirming the healthy level of activity. However, as was the case after a strong UK manufacturing PMI on Monday, it didn't help sterling much. Cable held up relatively well early in the session. The pair was dragged lower by the overall USD rebound, but recouped most of the losses towards the end of the day. Cable ended the session at 1.5421 (from 1.5417 on Monday). EUR/GBP stayed on a downward trajectory, but this was mostly due to the price performance in the US cross rates, rather than USD strength. EUR/GBP closed the session at 0.7110 from 0.7145 on Monday.

Overnight, the BRC shop prices were little changed at -1.8%/Y/Y from -1.9%. The market reaction was limited. Later today, the focus will be on the UK services PMI. A rebound from 53.3 to 54.5 is expected. The market reaction might remain guarded ahead of tomorrow's BoE policy decision and inflation report. Even so, an inline figure should help sterling maintain its recent gains,, especially against the euro. Looking at the broader picture, the soft tone at the ECB press conference pushed EUR/GBP again lower in the longstanding sideways range. The pair tested the 0.7196 support and the level was 'really' broken after the FOMC announcement. We maintain a sell-on-upticks approach for EUR/GBP. The BoE inflation report on Thursday is the next key reference from sterling trading.



EUR/GBP holding below 0.7196 previous low



Cable is holding in the upper part of the range

Calendar

Wednesday, 4 November		Consensus	Previous
US			
13:00	MBA Mortgage Applications (Oct 30)	--	-3.5%
14:15	ADP Employment Change (Oct)	180k	200k
14:30	Trade Balance (Sep)	-\$41.00b	-\$48.33b
15:45	Markit US Composite PMI (Oct F)	--	54.5
15:45	Markit US Services PMI (Oct F)	54.5	54.4
16:00	ISM Non-Manf. Composite (Oct)	56.5	56.9
Japan			
	Consumer Confidence Index (Oct)	A: 41.5	40.6
00:50	Monetary Base YoY (Oct)	A: 32.5%	35.1%
00:50	Monetary Base End of period (Oct)	A: ¥344.4t	¥338.4t
02:35	Nikkei Japan PMI Services (Oct)	A: 52.2	51.4
02:35	Nikkei Japan PMI Composite (Oct)	A: 52.3	51.2
China			
02:45	Caixin China PMI Composite (Oct)	A: 49.9	48.0
02:45	Caixin China PMI Services (Oct)	A: 52.0	50.5
UK			
01:01	BRC Shop Price Index YoY (Oct)	A: -1.8%	-1.9%
10:30	Official Reserves Changes (Oct)	--	-\$321m
10:30	Markit/CIPS UK Services PMI (Oct)	54.5	53.3
10:30	Markit/CIPS UK Composite PMI (Oct)	53.6	53.3
EMU			
10:00	Markit Eurozone Services PMI (Oct F)	54.2	54.2
10:00	Markit Eurozone Composite PMI (Oct F)	54.0	54.0
11:00	PPI MoM/YoY (Sep)	-0.5%/-3.3%	-0.8%/-2.6%
Germany			
09:55	Markit Germany Services PMI (Oct F)	55.2	55.2
09:55	Markit/BME Germany Composite PMI (Oct F)	54.5	54.5
France			
09:50	Markit France Services PMI (Oct F)	52.3	52.3
09:50	Markit France Composite PMI (Oct F)	52.3	52.3
Italy			
09:45	Markit/ADACI Italy Services PMI (Oct)	53.5	53.3
09:45	Markit/ADACI Italy Composite PMI (Oct)	53.6	53.4
Spain			
09:15	Markit Spain Services PMI (Oct)	55.4	55.1
09:15	Markit Spain Composite PMI (Oct)	55.0	54.6
Sweden			
08:30	Swedbank/Silf PMI Services (Oct)	55.5	57.0
Events			
	EMU - ECB Forum on Banking Supervision in Frankfurt		
11:30	US - Fed's Brainard Speaks on Financial Stability in Frankfurt		
14:00	US - Fed's Harker Gives Welcoming Remarks in Philadelphia		
15:30	Sweden - Riksbank's Skingsley, Af Jochnick at Bank Conference		
16:00	US - Fed's Yellen Testifies on Bank Regulation Before House Panel		
20:30	US - Fed's Dudley Speaks on Economy in New York		
Before market open	Earnings releases from ING, Marks & Spencer		
After market open	Earnings releases from Facebook, MetLife, Prudential		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,21	0,03	US	0,77	0,01	DOW	17918 17918,15
DE	0,58	0,01	DE	-0,30	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,88	0,01	BE	-0,26	0,01	NIKKEI	18927 18926,91
UK	1,99	0,04	UK	0,70	0,07	DAX	10951,15 10951,15
JP	0,32	0,01	JP	0,01	0,00	DJ euro-50	3443 3442,68

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,134 -0,005
3y	0,044	1,126	1,235	Euribor-1	-0,12	0,00	Libor-1 USD	0,51 0,51
5y	0,288	1,524	1,564	Euribor-3	-0,07	0,00	Libor-3 USD	0,58 0,58
10y	0,950	2,092	1,999	Euribor-6	0,01	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,09495	-0,0076	EUR/JPY	132,5	-0,48		194,9138	1120,48	50,42
USD/JPY	121,05	0,43	EUR/GBP	0,7098	-0,0046	-1d	0,00	-16,07	1,73
GBP/USD	1,542	-0,0010	EUR/CHF	1,0856	-0,0013				
AUD/USD	0,7203	-0,0006	EUR/SEK	9,3627	-0,03				
USD/CAD	1,3054	-0,0029	EUR/NOK	9,3240	-0,02				

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