



Sunrise

Thursday, 01 October 2015

Rates: neutral into the payrolls?

Overnight, Chinese PMI's stabilized albeit at low levels. Nevertheless, Asian equity markets react positively as the situation didn't deteriorate further. Today, the US manufacturing ISM is the main release. We don't expect large market moves ahead of tomorrow's payrolls, whatever the outcome of the ISM.

Dollar gains slightly ground as risk sentiment improves further

Yesterday, the dollar regained ground as the risk-on rebound continued. EUR/USD dropped back below the 1.12 mark. USD/JPY is holding a tight range near 120. EUR/GBP declined slightly after a smaller than expected UK current account deficit. Today, the focus is on the manufacturing ISM/PMI's. We don't expect big breaks before the payrolls.

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** capitalised on the strong opening and managed to keep the gains after a day of lateral trading. **US equities** also took back a large part of the early week losses, keeping the profits after a solid opening.
- **Chinese PMI data didn't really brighten the Chinese picture, but they did bring some stabilization in a dire situation.** The Chinese Caixin Manufacturing PMI (final) rose slightly from 47.0 to 47.2 in September, marginally better than expected. However, the Services PMI dropped from 51.5 to 50.5.
- **The Japanese business conditions are still not rosy for the manufacturing businesses,** with the Tankan Large Mfg index dropping from 15 to 12, below the expected 13. **The service businesses on the other hand are more positive,** with the Tankan Large non-Mfg index rising from 23 to 25, a lot more than the expected 20.
- The **Irish leprechaun keeps showing its pot of gold, with the Investec manufacturing PMI increasing** to 53.8 in September, coming from 53.6 in August.
- **Russia started with air strikes in Syria, its first intervention in the Middle East in a long time.** This intervention in Syria will be a continuing challenge for Moscow, which is already intervening in Ukraine, while its own economy is suffering from low oil prices and Western sanctions.
- **Today, the eco-calendar contains the final EMU manufacturing PMI, US manufacturing ISM and the jobless claims for last week. Fed's Williams is scheduled to speak on the outlook.**

Rates

Core bond mixed, despite equity strength

Core bonds little changed despite equity recovery.

	US yield	-1d
2	0,6526	-0,0039
5	1,3831	-0,0179
10	2,0649	-0,0106
30	2,8788	0,0062

	DE yield	-1d
2	-0,2540	-0,0030
5	0,0010	-0,0050
10	0,5980	0,0060
30	1,3460	0,0200

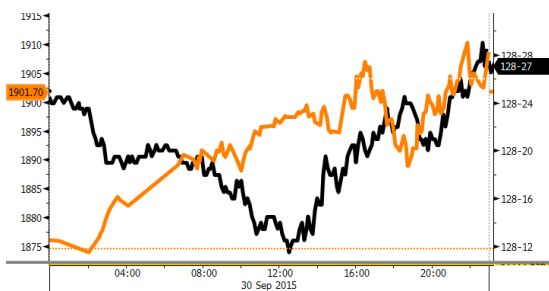
Stabilization of business confidence data?

Yesterday, global core bonds initially traded slightly lower on equity strength and risk-on sentiment. However, the tide turned in the European afternoon session and continued during the US session despite the good equity performance. At the end, the Bund and Treasury futures were nearly unchanged versus the previous close. In yield terms, US yields were flat (30-yr) to 2 bps lower (2-yr), the curve bull steepening. The German curve bear steepened with yields flat to 1.8 bps higher (30-yr). Intra-EMU, spread narrowing was minimal (1 to 3 bps).

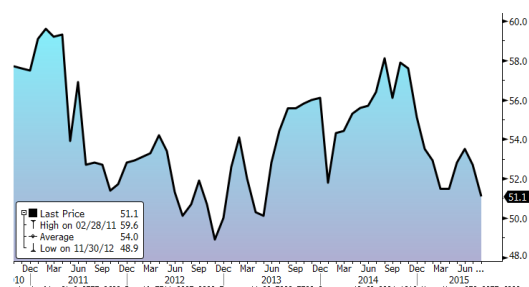
Also commodities did better with the exception of gold. End of month/quarter extension buying may have been a driver of the relatively strong performance of core bonds. EMU headline inflation turned negative for the first time since March, but it didn't really come as a surprise. Core inflation remained stable at 0.9% Y/Y. It couldn't support the Bund. The US ADP employment report remained good, but was too close to expectations to stop the recovery of core bonds. The Chicago PMI was weaker than expected, but its impact is difficult to assess as the recovery was already ongoing. However, it didn't affect equities which rose after publication.

US ISM and initial claims eye-catcher

According to the consensus estimate, the final EMU manufacturing PMI is forecast to remain unchanged at 52. In the US, the manufacturing ISM is expected to have dropped slightly to 50.6 in September, following a significant drop to 51.1 in August. The regional indicators were weak during the month, with most of them running well below expectations. Overnight the Tankan (manufacturing) was weaker than in Q2, but close to expectation while the Chinese manufacturing ISM broadly stabilized. Taking it all together, we have too little information to distance us from the consensus. Finally, US initial jobless claims are expected little changed compared with the previous week. The consensus is looking for an increase by 4 000 to 271 000, keeping claims in line with their recent trend.



T-Note future (black) & S&P future (orange). Bonds turn direction (higher) in afternoon, despite equity strength.



ISM manufacturing: End to negative trend in September?

R2	160,62	-1d
R1	156,84	
BUND	156,08	0,0000
S1	152,75	
S2	151,87	

France and Spain complete this week's supply

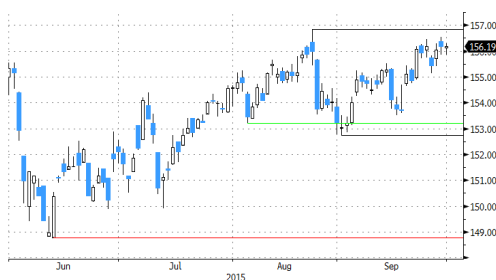
The French debt agency taps the on the run 10-yr OAT (1% Nov2025) and creates a new 15-yr OAT (1.5% May2031) for a combined €7-8B. Grey market trading suggests that the new OAT will come to the market with a 1.7 bps pick-up in ASW-spread terms versus the previous 15-yr benchmark (2.5% May2030). The 10-yr OAT traded stable in ASW spread terms going into the auction. Overall, we expect a plain vanilla auction. That corresponds with a 9 bps pick-up in yield terms. **The Spanish Treasury taps two on the run Bono's (0.25% Apr2018 & 1.15% Jul2020) and an off the run Obligacion (4.65% Jul2025) for €3.5-4.5B.** The bonds outperformed versus swap ahead of the auction in a "relief" reaction following the Catalan election outcome. On the Spanish curve, the off the run Obligacion trades very cheap. We look out whether this week's positive momentum is also reflected in the auction results.

Today: More neutral trading ahead of payrolls?

Overnight, Chinese PMI's stabilised, albeit at low levels. The Japanese Tankan was also close to expectations. Nevertheless, for Asian stock markets (China closed) the stabilisation was enough to trigger a relief rally. It could have been worse! **US Congress passed a budget measure** to fund the US government for two months, avoiding a government shutdown. On a less positive note, **IMF Lagarde** warned of disappointing and uneven global growth. Overnight, the US Note future trades lower, suggesting a weaker opening for the Bund as well.

Today's eco calendar final EMU PMI and US manufacturing ISM. We expect the market impact to be muted ahead of tomorrow's payrolls, no matter the outcome. Risk sentiment on equity markets is still fragile and remains a wildcard for trading. We note that core bonds performed well this week in risk-on sessions. **Taking everything into account, we are neutral for today's trading.**

More general, **both the ECB and the Fed hang on to very easy policies. The Fed keeps extending its ZIRP while the ECB keeps the door open to additional QE. Therefore we believe that recent lows (Bund: 152.75; US Note future 126-16+) put a floor under the core bond market. While a return towards the recent highs (Bund: 156.84; US Note future 129-10+) is likely, we don't turn outright bullish bonds. Range bound trading can be expected.**



German Bund: Bund approaches upper bound sideways range. We don't anticipate a break higher



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

Currencies

Dollar shows limited gains as sentiment turns risk-on

Dollar gains modestly as sentiment turns risk-on.

Dollar still confined to recent ranges

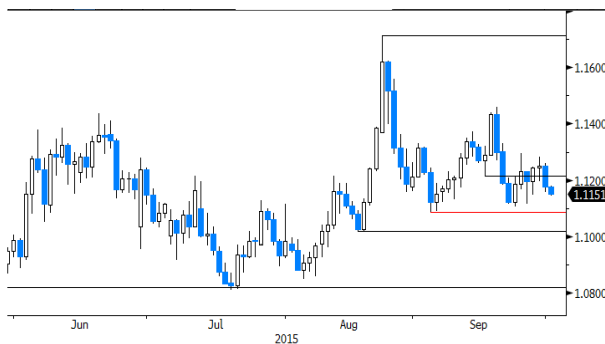
R2	1,1714	-1d
R1	1,146	
EUR/USD	1,11425	-0,0092
S1	1,1087	
S2	1,1017	

Data might be slightly USD supportive, but big move ahead of the payrolls is unlikely.

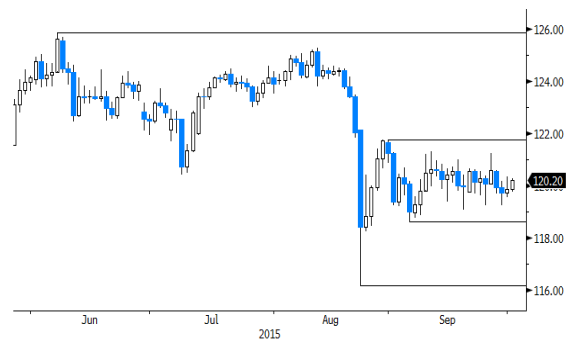
Yesterday, the risk-on rally continued, pushing European equities sharply higher. However, core bonds lost only slightly ground. In the same vein, the gains of the dollar against the euro and yen were modest. EUR/USD closed the session at 1.1177 (from 1.1249). USD/JPY ended the session at 119.88, only marginally higher from Tuesday (119.74).

This morning, official China PMI's were little changed. The Caixin composite PMI declined further from 48.8 to 48.00 due to a decline in the services measure. In Japan, the Tankan Large manufacturing index declined more than expected, but the measures for the non-manufacturing sector and for small business were mostly better than expected as was Capex. **Despite mixed confidence data in China and Japan, the reaction of Asian equities is constructive.** So, it looks like the risk-on rebound has further to go. Even so, the gains in USD/JPY remain very modestly. USD/JPY is changing hands in the 120.25 area. The dollar gains some further ground against the euro, with EUR/USD trading in the 1.1150 area. The AUD/USD is trending higher in the 0.70 big figure, as commodities rebound.

Today, the focus will be on the manufacturing PMI/ISM. In Europe, the preliminary manufacturing PMI declined to 52.00, mostly due to Germany. While a slight downward revision is possible, it won't be a major issue for EUR/USD trading. **The US manufacturing ISM has more market moving potential.** A further setback from 51.1 to 50.6 is expected. Regional confidence data were poor of late. So, we are neutral on the outcome of the ISM. The market reaction in Asia this morning suggests that, after the recent sell-off, **equities are again more inclined to react positively if the data allow to do so.** In such context, the dollar might remain well bid. **In a day-to day perspective, USD/JPY and EUR/USD are blocked in very tight ranges.** In EUR/USD, the recent lows in the 1.1105/1.1087 area are the first support levels. It won't be that easy to break this area before the payrolls.



EUR/USD drifting lower, but within established range



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.

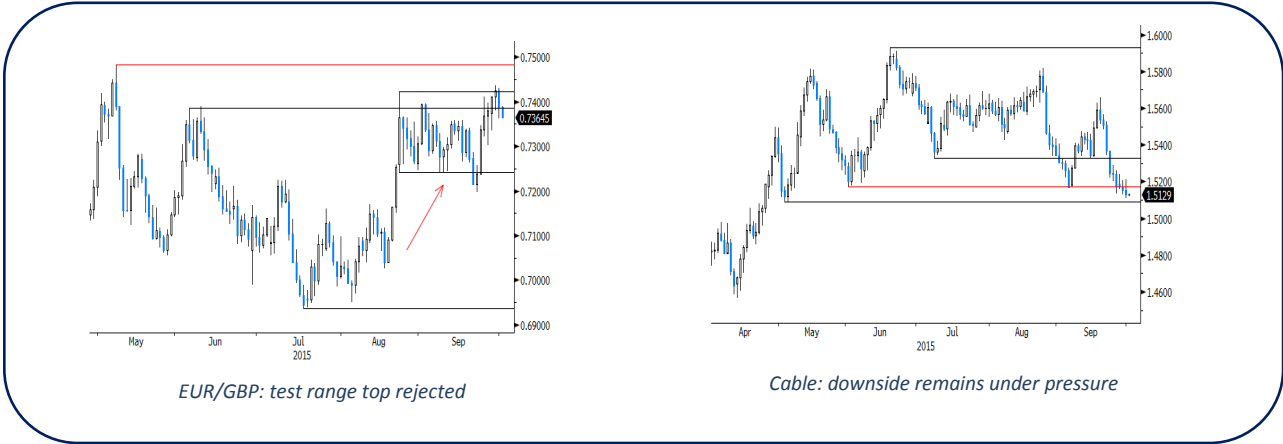
R2	0,7483	-1d
R1	0,7437	
EUR/GBP	0,7362	-0,0047
S1	0,7196	
S2	0,715	

EUR/GBP drifting off the recent highs

Yesterday, there was a slight improvement in sentiment vis-à-vis the UK currency. Easing of global tensions was a positive for the sterling as it was for the dollar. The UK data played a role too. UK Q2 GDP growth was confirmed at 0.7% Q/Q, but the **Q2 current account** was much smaller than expected. The services index suggested ongoing solid growth at the start of the third quarter. **Decent UK eco data combined with a constructive global sentiment triggered a rebound of sterling after a disappointing performance of late.** This was in the first place visible in EUR/GBP. The pair closed the session at 0.7388, from 0.7426 on Tuesday. Cable initially rebounded north of 1.52, but a late session rebound pushed the pair back to the low 1.51 area. **So, sterling underlying sentiment on sterling remains fragile.**

Today, the UK manufacturing PMI is expected to decline further from 51.5 to 51.3. Recent data of the UK manufacturing sector were weak, but UK growth is mostly driven by the services sector. So, the reaction of sterling to today's report might be limited, unless there is a big deviation from consensus. A positive sentiment on risk might still be negative for the EUR/GBP.

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 sustained break occurred. Sustained 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.



Calendar

Thursday, 1 October		Consensus	Previous
US			
	Wards Domestic Vehicle Sales (Sep)	13.80m	13.80m
	Wards Total Vehicle Sales (Sep)	17.60m	17.72m
13:30	Challenger Job Cuts YoY (Sep)	--	2.9%
14:30	Initial Jobless Claims	271k	267k
14:30	Continuing Claims	2230k	2242k
16:00	Construction Spending MoM (Aug)	0.5%	0.7%
16:00	ISM Manufacturing (Sep)	50.6	51.1
16:00	ISM Prices Paid (Sep)	40.0	39.0
Canada			
15:30	RBC Canadian Manufacturing PMI (Sep)	--	49.4
Japan			
01:50	Tankan Large Mfg Index (3Q)	13	15
01:50	Tankan Large Mfg Outlook (3Q)	10	16
01:50	Tankan Large All Industry Capex (3Q)	8.7%	9.3%
03:35	Nikkei Japan PMI Mfg (Sep F)	--	50.9
07:00	Vehicle Sales YoY (Sep)	--	2.3%
UK			
10:30	Markit UK PMI Manufacturing SA (Sep)	51.3	51.5
EMU			
10:00	Markit Eurozone Manufacturing PMI (Sep F)	52.0	52.0
Germany			
09:55	Markit/BME Germany Manufacturing PMI (Sep F)	52.5	52.5
France			
09:50	Markit France Manufacturing PMI (Sep F)	49.4	50.4
Italy			
09:45	Markit/ADACI Italy Manufacturing PMI (Sep)	--	53.8
10:00	Deficit to GDP YTD (2Q)	--	5.6%
China			
03:00	Manufacturing PMI (Sep)	49.7	49.7
03:00	Non-manufacturing PMI (Sep)	--	53.4
03:45	Caixin China PMI Mfg (Sep F)	47.0	47.0
03:45	Caixin China PMI Composite (Sep)	--	48.8
03:45	Caixin China PMI Services (Sep)	--	51.5
Norway			
09:00	Manufacturing PMI (Sep)	44	43.3
Spain			
09:15	Markit Spain Manufacturing PMI (Sep)	52.9	53.2
Sweden			
08:30	Swedbank/Silf PMI Manufacturing (Sep)	54	53.2
Events			
02:00	US - Fed's Brainard Speaks on Community Banking in St. Louis ()		
09:30	UK - BOE's Financial Policy Committee Record of September Meeting ()		
10:30	Spain - Auctions Bonos/Obligaciones		
10:50	France - Auctions OATs		
11:30	UK - Gbp 4bn 1.5% Jan 2021 Gilt		
18:00	Switzerland - SNB Vice President Zurbruegg Holds Speech at KOF		
20:30	US - Fed's Williams Gives Outlook Speech to Salt Lake Area Communit		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,06	-0,01	US	0,65	0,00	DOW	16285 16284,70
DE	0,60	0,01	DE	-0,25	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,92	-0,01	BE	-0,19	0,00	NIKKEI	17722 17722,42
UK	1,76	0,01	UK	0,54	0,02	DAX	9660,44 9660,44
JP	0,33	-0,02	JP	0,01	-0,01	DJ euro-50	3101 3100,67

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	0,121	0,988	1,117	Euribor-1	-0,11	0,00	Eonia EUR	-0,122	0,013
5y	0,352	1,396	1,417	Euribor-3	-0,04	0,00	Libor-1 USD	0,51	0,51
10y	0,969	2,007	1,819	Euribor-6	0,03	0,00	Libor-3 USD	0,58	0,58
							Libor-6 USD	0,75	0,75

Currencies	-1d	Currencies	-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,11425 -0,0092	EUR/JPY	133,82 -0,90		193,7648	1113,06	48,76
USD/JPY	120,12 0,18	EUR/GBP	0,7362 -0,0047	-1d	0,19	-13,24	0,83
GBP/USD	1,5128 -0,0032	EUR/CHF	1,0883 -0,0048				
AUD/USD	0,7052 0,0044	EUR/SEK	9,3539 -0,09				
USD/CAD	1,3303 -0,0103	EUR/NOK	9,4978 -0,03				

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