Sunrise

Monday, 05 October 2015

Core bonds jump higher, but ease later on as equities rebound spectacularly

The outright reaction on the weak payrolls was standard: equities lower, bonds higher and dollar weaker. Equities rebounded though, which might signal that a bottom is in place, even as more evidence is needed. Low rates for longer might have been the equity motive to rally. Indeed, the 2015 lift-off is now highly questionable.

Dollar holding reasonably strong despite poor US payrolls

On Friday, the dollar had a roller-coaster ride. The US currency was hit after a poor US payrolls report, but rebounded as sentiment turned again risk-on later in the session. Today, the focus for USD trading will be on the ISM non-manufacturing. Will the dollar remain strong in case of another negative surprise?

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	↗

- On Friday **European equities** maintained some of their opening profits after an intraday fall, closing the week in the green. **US equities** had a weak opening after a bad US payrolls report. However, US markets succeeded a remarkable risk-on rebound later. US equities closed with gains between 1% and 2%
- **Asian equities build on the positive momentum in the US**, recording decent gains after a mixed open.
- Federal reserve governor **Eric Rosengren** said the **U.S. economy needs to be growing at 2% in the second half**, in order to justify **an interest-rate increase** at the **December** FOMC meeting.
- **Spain** received a **credit rating upgrade by Standard & Poors** from BBB to BBB+. The drivers were the reforms in labor regulations, improved export competitiveness and easier financial conditions.
- **Today, the focus is on confidence in the services sector in the EMU and the UK. The US ISM non-manufacturing survey will be published too. .**

Rates

Horrible payrolls lift US Treasuries, but off highs at close

Bonds jump higher on awful payrolls, but return of equities halved initial gains.

Modest spread narrowing in peripheral markets

	US yield	-1d
2	0,5774	-0,0831
5	1,2841	-0,0893
10	1,9841	-0,0615
30	2,8228	-0,0318

	DE yield	-1d
2	-0,2660	0,0000
5	-0,0450	-0,0090
10	0,5190	-0,0330
30	1,2570	-0,0530

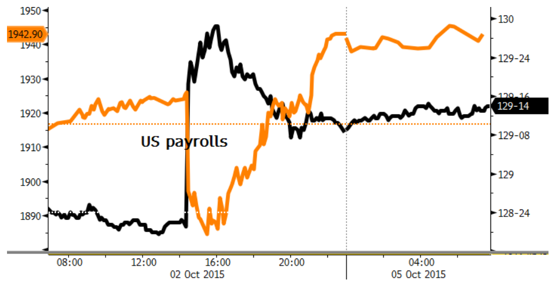
Global core bonds broke through the upper bound of established trading ranges following a disastrous US payrolls report. Equities were initially hit sharply, but managed to erase intra-day losses and even ended with juicy gains by closure time. Volumes were light for such a surprising payrolls report, suggesting that the argument of low yields for longer captured the imagination of fast money. Let's see whether in the next days, real money investors join the optimism and lay a bottom under US equities (in a technical sense).

US Treasuries initially jumped higher, but couldn't hold on to these juicy gains and struggled when equities rebounded. Positioning for upcoming supply was an additional negative. Contrary to equities, volume in the US Treasury Note future was high. US Treasuries outperformed German Bunds, except for the very long end. The US curve bull steepened with 2-5-yr yields 6.5 to 7 bps lower, the 10 and 30-yr yields were down by 4.3 and 2.2 bps respectively. The Germane curve bull flattened with yields 0.2 bps to 4.4 bps lower. The main resistance at 129-10+ is not yet decisively broken and neither is the US 10-year yield (1.994%.

Weak payrolls questions 2015 lift-off..

Fed Bullard & Rosengren still see possibility of lift-off, but the odds are against such move in 2015

The September payrolls were at 142K way below consensus and against all predictions, the August payrolls weren't revised higher, but instead lower to 216K. Other indications like flat AHE, slightly shortened workweek and a drop in the participation rate all came out on the same wrong side. Coupled with a weak ISM manufacturing, released Thursday, barely above the 50 boom bust line, **it seriously questions whether the Fed will be able to lift off its rates this year. The odds are now less than even of that happening. Admittedly, the Fed was still largely in favour of a 2015 lift-off, but last week's eco data together with potentially political upheaval around the 2015/16 budget, a government shutdown and debt ceiling issues, the odds are now against a lift-off in 2015**. Of course, August/September payrolls may be outliers, but it will take time for the Fed to have sufficient evidence that that's the case. **Boston Fed Rosengren** said that the lift-off is likely to happen soon. Raising rates in 2015 remains a reasonable forecast if growth is 2-2.5%. Given that Rosengren is normally a dovish governor, these comments are rather hawkish, but **after** the payrolls he said the Fed was right to delay a lift-off decision in September. Similarly, **Fed Bullard**, a hawk, repeats his bias to start normalizing rates and downplays the payrolls report. **We wait now for more Fed comments**



S&P future (orange) & T-Note future (black).Weak payrolls push bonds higher and equities lower, but the latter turn soon North, erasing all losses and eke even out juicy gains

German 5-yr yield slides again further below zero, as US eco weakness and closing window for lift-off, put ECB under pressure to do more

Sunrise Market Commentary

Monday, 05 October 2015

All eyes on US manufacturing ISM

Will non-manufacturing ISM ease or exacerbate fears of pronounced growth slowdown?

Today, the **US Non-manufacturing ISM** will draw all attention following the very weak payrolls published on Friday. In EMU, the final services PMI will get less attention as will the outdated retail sales, but in the UK the services PMI (first reading) might help colour morning trading: a slight rise to a respectable 56 is expected (we agree). The **September US Non-manufacturing ISM** is expected to drop 57.5 in September, previously 59. While the second drop in a row, **the level is still very high and if confirmed would point to still strong domestic demand and ease fears of a growth slowdown** following the release of the manufacturing ISM and the payrolls. A bigger than expected drop would only exacerbate fears for a more pronounced slowdown. **We don't exclude such a setback, as the index jumped in July sharply higher, on which there may now be a more outspoken pullback**.

R2	160,62	-1d
R1	157,67	
BUND	**157,17**	0,0000
S1	152,75	
S2	151,87	

Portuguese election; Spanish upgrade

Portuguese PM Passos Coelho's center-right coalition won the general elections, but they lost their parliamentary majority. They retain 104 seats in the 230-seats Portuguese parliament against 85 seats for the centre-left Socialist party. The Socialists admitted defeat and ruled out a coalition with extreme leftist (anti-EU) parties which gained a combined 36 seats. **Passos Coelho already said that he would inform the Portuguese president that he was available to form a minority government. The ruling coalition and the Socialist party share a common commitment to remain in the euro and meet fiscal targets agreed with the EU.** Therefore, the minority government nevertheless has a decent chance of survival. Passos Coelho is the first PM to be re-elected after a harsh austerity programme. **On Portuguese bond markets, we expect little impact as the election victory was in line with expectations and is thus likely discounted in bond prices**.

Rating agency S&P upgraded the Spanish rating by one notch (BBB to BBB+; stable outlook). Spain is rated Baa2 (positive outlook) at Moody's and BBB+ (stable) at Fitch. The upgrade reflects S&P's view of Spain's strong, balanced economic performance over the past four years, which is gradually benefiting public finances. The rating action wasn't expected as the outlook on the Spanish rating was stable and general elections are held later this year. Therefore, we expect outperformance of Spanish bonds today.

German Bund: Above upper bound. In yield terms 0.47% is key support (currently 0.51%).

US Note future: weak payrolls push US Note future temporary (?) above topside recent range

Today: 2015 lift-off expectations completely dashed?

Overnight, Asian stocks markets trade around 1.5% higher in line with WS's comeback following the weak payrolls report. The US Note future trades marginally higher though. **Today's** key release is the US non-manufacturing ISM. Risks are on the downside of expectations. **In combination with disappointing US manufacturing ISM and payrolls last week, this could further push back lift-off expectations (2016). That's a positive for the US Note future and force a test of the post-payrolls high (130-00+).** After the dovish September FOMC meeting, we eyed a return to the contract high (129-10+), but we didn't anticipate a break higher. **That last assumption is now under severe pressure**. Therefore, we hold off setting up short positions until the dust has settled. Fed members confirming that a 2015 lift-off remains the preferred scenario is a possible trigger. Fed George (Tuesday), Williams, Bullard (Wednesday), Kocherlakota (Thursday), Lockhart and Evans (Friday) are scheduled to speak. For the Bund, the reasoning is similar. **A break of the 10-yr yield below 0.47% would make the technical picture bullish.** The EMU calendar is uninspiring today.

Currencies

R2	1,1714	-1d
R1	1,146	
EUR/USD	**1,1239**	0,0066
S1	1,1087	
S2	1,1017	

Post-Payrolls dollar decline reverses remarkably

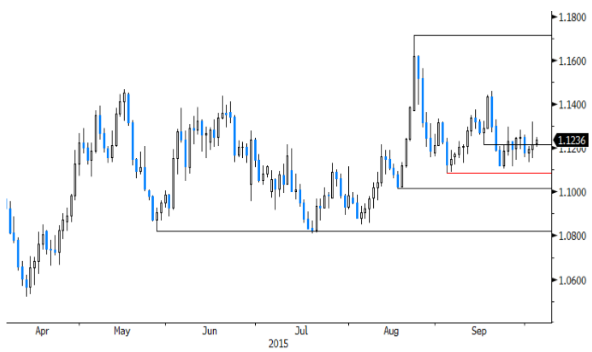
Dollar spikes temporary lower after poor payrolls, but rebounds as sentiment turned risk-on again.

On Friday, the US payrolls report were the only relevant item and markets were confident it would be a strong report. The dollar gained against the euro and the yen. However, the payrolls were really disappointing. US bond yields, equities and the dollar initially all declined substantially. However, the risk-off reaction was temporary and equities rebounded impressively later in the US trading session. The dollar also regained a big part of the post NFP losses. EUR/USD traded temporary north of 1.13, but closed the session at 1.1216 (from 1.1195 on Thursday). USD/JPY ended the session at 119.91, virtually unchanged from Thursday's close.

Dollar little changed in Asia this morning

Commodity currencies show signs of bottoming out

Overnight, Asian equity markets are trading positively, as a potential delay in the Fed lift-off is supporting growth in emerging markets. Remarkably, the risk-on rebound in US equities is also visible in some commodities and is supporting commodity currencies. The Canadian, the Australian and the Kiwi dollar are all gaining gradually against the dollar. The picture in the major USD cross rates is less straightforward. The dollar is losing marginally ground against the euro this morning with EUR/USD trading in the 1.1235 area. USD/JPY hardly profits from the risk-on rally and changes hands in the 120 area. Yen traders are in a wait-and-see modus ahead of the BOJ policy statement expected on Wednesday.



EUR/USD: holding in well-know-territory despite poor US payrolls

USD (trade-weighted): limited damage after poor payrolls

Tion

Dollar to cede (moderately) ground in case of more signs of US slowdown?

Today, the FX focus on the PMI's/ISM business confidence of the services sector. We don't expect a substantial revision for the EMU services PMI (preliminary at 54.00) and limited impact on EUR/USD. The consensus expects the US non-manufacturing ISM to decline from 59.00 to 57.5. **We see risk for a negative surprise**. If so, it might reinforce investor nervousness about a US growth slowdown and add to chances for an Fed rate lift-off in 2015. Initially, such a scenario should be dollar negative as it may lose more interest rate support even as US/German 2-year interest rate differentials have already declined substantially after the payrolls. Regarding the global picture, the jury is still out whether the risk-on rebound can persist in case of more signals of US eco weakness. **So, in a day-to-day perspective, we turn more cautious on the dollar** even as the reaction of EUR/USD and of USD/JPY on Friday was very limited after all. **In a long term perspective, EUR/USD and USD/JPY might see more range**

trading. A Fed rate hike might be delayed, but such a scenario also raises the chances for more ECB or BOJ easing. In this context, both EUR/USD and USD/JPY might still hold the recent ranges.

From technical point of view, the global picture for the dollar (EUR/USD) hasn't changed. The dollar rebound ran into resistance just north of the EUR/USD 1.1087 support. but for now EUR/USD is holding the established sideways consolidation pattern. **1.1087/1.1017 is a solid bottom. 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 still less obvious (delay in Fed rate hike expectations), EUR/USD may return toward the topside of this range.**

Will good services PMI support sterling?

R2	0,7483	-1d
R1	0,7443	
EUR/GBP	**0,7388**	0,0015
S1	0,7196	
S2	0,715	

On Friday, the UK construction PMI printed at a very strong 59.9 (57.5 was expected). Sterling gained a few more ticks against the euro and the dollar after the publication of the release. **However, it was again the global market reaction (in the wake of the US payrolls report) that really mattered for sterling trading**. Cable jumped from the mid 1.51 area to the 1.5235 area as the dollar was sold. EUR/GBP jumped north of 0.74. However, the risk-off rebound late in the US dealings also reversed most of the intraday moves in the major sterling cross rates. Cable closed the session at 1.5185 (from 1.5131 on Thursday). EUR/GBP ended the week at 0.7382 (from 0.7398 on Thursday).

Today, the UK services PMI is expected to rise from 55.6 to 56.00. The manufacturing PMI and the construction PMI showed a moderate rebound. So, we don't have a strong reason to take a different view from the consensus. A 56.00 reading would confirm a good momentum in the UK economy. However, the question is whether it will help sterling. Global uncertainty is pushing rate hike expectations for the Fed and the BoE backward. Also keep an eye at the headlines from the Congress of the Conservative party. Signals of a deepening rift on Brexit within the ruling party might be a negative for sterling. **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 sustain break occurred. 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.

EUR/GBP: holding near the recent highs/range top

Cable: downside test continues

Calendar

Monday, 5 October		Consensus	Previous
US			
15:45	Markit US Composite PMI (Sep F)	--	55.3
15:45	Markit US Services PMI (Sep F)	55.6	55.6
16:00	**ISM Non-Manf. Composite (Sep)**	**57.5**	**59.0**
16:00	Labor Market Conditions Index Change (Sep)	1.4	2.1
Canada			
16:00	Bloomberg Nanos Confidence (Oct 2)	--	54.4
Japan			
03:30	Labor Cash Earnings YoY (Aug)	A:0.5%	0.6%
03:30	Real Cash Earnings YoY (Aug)	A:0.2%	0.3%
03:35	Nikkei Japan PMI Services (Sep)	A:51.4	53.7
03:35	Nikkei Japan PMI Composite (Sep)	A:51.2	52.9
UK			
	Halifax House Prices MoM / 3 Mths/Year(Sep)	0.1%/9.1%	2.7%/9.0%
10:30	**Markit/CIPS UK Services PMI (Sep)**	**56.0**	**55.6**
10:30	Markit/CIPS UK Composite PMI (Sep)	54.9	55.1
EMU			
10:00	Markit Eurozone Services PMI (Sep F)	54.0	54.0
10:00	Markit Eurozone Composite PMI (Sep F)	53.9	53.9
10:30	Sentix Investor Confidence (Oct)	11.8	13.6
11:00	**Retail Sales MoM/YoY (Aug)**	**0.0%/1.7%**	**0.4%/2.7%**
Germany			
09:55	Markit Germany Services PMI (Sep F)	54.3	54.3
France			
09:50	Markit France Services PMI (Sep F)	51.2	51.2
Italy			
09:45	Markit/ADACI Italy Services PMI (Sep)	54.1	54.6
Spain			
09:15	Markit Spain Services PMI (Sep)	58.7	59.6
Sweden			
08:30	Swedbank/Silf PMI Services (Sep)	--	52.4
09:30	Industrial Production MoM/NSA YoY (Aug)	1.5%/0.5%	-3.0%/-1.9%
09:30	Industrial Orders MoM/NSA YoY (Aug)	--/--	0.0%/11.2%
09:30	Service Production MoM SA/YoY WDA (Aug)	0.6%/--	-1.2%/2.8%
Events			
	Ireland - Announces details of auction on 08 Oct		

10-year	td	-1d	2 -year	td	-1d	STOCKS		-1d
US	1,98	-0,06	US	0,58	-0,08	DOW	16472	16472,37
DE	0,52	-0,04	DE	-0,27	0,00	NASDAQ	or Exch - NQI	#VALUE!
BE	0,83	-0,05	BE	-0,19	0,00	NIKKEI	18005	18005,49
UK	1,71	-0,05	UK	0,53	0,00	DAX	9553,07	9553,07
JP	0,32	-0,01	JP	0,00	-0,01	DJ euro-50	3088	3088,18

							USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,139	0,003
3y	0,098	0,921	1,078	Euribor-1	-0,11	0,00	Libor-1 USD	0,51	0,51
5y	0,320	1,319	1,363	Euribor-3	-0,04	0,00	Libor-3 USD	0,58	0,58
10y	0,895	1,953	1,765	Euribor-6	0,03	0,00	Libor-6 USD	0,75	0,75

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1239	0,0067	EUR/JPY	134,88	0,80		194,1059	1134,5	48,44
USD/JPY	120,03	0,00	EUR/GBP	0,7388	0,0013	-1d	1,60	24,30	0,35
GBP/USD	1,5211	0,0068	EUR/CHF	1,091	-0,0015				
AUD/USD	0,7071	0,0038	EUR/SEK	9,382	0,01				
USD/CAD	1,3129	-0,0104	EUR/NOK	9,3898	-0,04				

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