



## Sunrise

Friday, 08 January 2016

### Rates: Profit taking on the back of strong payrolls?

Overnight, risk sentiment on Asian markets took a turn for the better. Chinese stocks outperform, supposedly on the back of government buying. Oil prices also continue their rebound. If these global settings remain the same and payrolls surprise on the upside, which we expect, it could trigger profit taking on this week's core bond rally.

### Currencies: Good payrolls to support the dollar, but...

EUR/USD rebounded sharply as the Chinese crisis supported the carry funding currencies. This morning, the dollar is better bid as global tensions ease. A strong US payrolls report should be supportive for the dollar, but the reaction might be guarded as global uncertainty persists. Sterling is testing/nearing key support levels against the dollar and the euro.

### 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	↗

- **The sell-off in US Equities accelerated** yesterday with major indices losing 2.5% to 3%, despite an intraday rebound in oil prices. This morning, **Asian shares trade mixed**. Chinese stocks rebound, probably supported by government buying.
- **Chinese equities plunged lower soon after their open, but immediately reversed losses, raising speculation that the government intervened, by buying shares**. Currently, most Chinese stocks gain 2%.
- **Bank of Japan policymakers were upbeat on the outlook for higher prices**, the Minutes of the latest policy meeting showed, dampening expectations that the BOJ could expand its stimulus programme as early as next month.
- **German industrial production dropped unexpectedly in November** as companies are adjusting production levels in response to slowing demand from emerging markets. A rebound in the construction sector should however support activity in the coming months, the Ministry said.
- The sell-off in Brent crude oil prices halted yesterday afternoon, although base metals remained under pressure. This morning, **the Brent oil price trades up 2%**, around \$34.40/barrel. Also base metals trade slightly higher this morning.
- Today, **the focus will be on the US payrolls report**, while in the euro area, only some second-tier data are on the agenda. Fed's Williams and Lacker are scheduled to speak.

# Rates

## Modest profit taking Bunds, US Treasuries gain

Global core bonds couldn't hold on to gains and fell prey to some profit taking as risk aversion didn't deteriorate (equities stabilized as did oil which even went higher later on) after a horrible equity market opening. During the US afternoon session, core bonds recovered some losses as US equities made another down-leg. This timing difference is reflected in yield changes, as the European cash bond market was already closed when US equities went down again. The decline was attributed to a Reuters article saying that policy advisors counseled the PBOC to let the yuan fall sharply and quickly by 10-15%. At least this morning, the PBOC didn't follow that advice, also amid rumours of state-induced equity buying. **In a daily perspective**, the German yield curve bear steepened with yields 0.2 bps (2-yr) to 4.6 bps (30-yr) higher. Changes on the US yield curve varied between -1.2 bps (30-yr) and -4.3 bps (5-yr). **On intra-EMU bond markets**, 10-yr yield spread changes versus Germany widened up to 5 bps with Ireland (-2 bps; strong syndication) outperforming and Greece (+14 bps) underperforming.

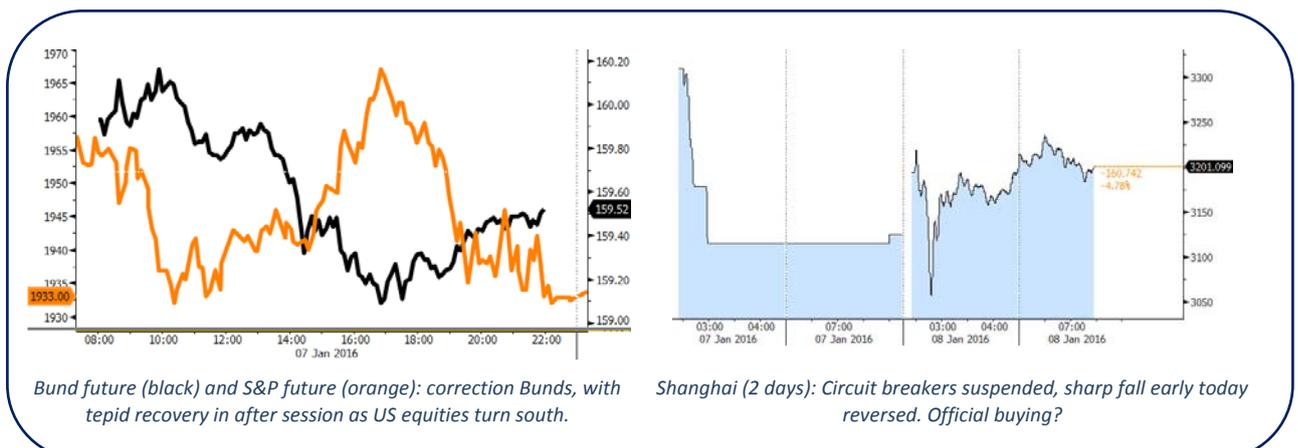
	US yield	-1d
2	0,9879	0,0199
5	1,6415	0,0227
10	2,1772	0,0352
30	2,943	0,0414

	DE yield	-1d
2	-0,3820	-0,0030
5	-0,1112	0,0261
10	0,5406	0,0399
30	1,4042	0,0273

## Stronger than expected payrolls report expected

## Focus is on the US payrolls report

Despite rather mixed US eco data over the last few months, the labour market recovery remains on track for now. Today's **payrolls report** will show whether this remained the case in December. The consensus is looking for an increase in non-farm payrolls by 200 000, slightly down from the 211 000 rise in November, but broadly in line with this year's trend. Earlier this week, the ADP report came out surprisingly strong (+257K), while it is difficult to draw conclusions from the claims data as they were distorted due to the holidays. Nevertheless, we believe that the **risks are for an upward surprise** mainly due to another strong performance of the services sector. Trade and transportation might continue to profit from decent end of year sales and we expect also strong gains in leisure and entertainment. Warm weather might have boosted construction jobs. The **unemployment rate** is expected unchanged at 5.0%, but also here we believe that a stronger outcome (lower rate) is not excluded. Finally, the wage data will be interesting too. A strong pick up in **average hourly earnings** from 2.3% Y/Y to 2.8% Y/Y is forecast, partially due to a positive base effects. If confirmed, this would be the strongest increase since mid-2009. On a monthly basis, AHE are forecast to have increased by a more moderate 0.2% M/M.



Bund future (black) and S&P future (orange): correction Bunds, with tepid recovery in after session as US equities turn south.

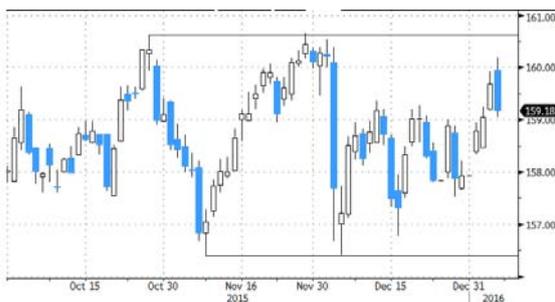
Shanghai (2 days): Circuit breakers suspended, sharp fall early today reversed. Official buying?

Today: Profit taking on the back of strong payrolls

R2	161,71	-1d
R1	160,66	
<b>BUND</b>	<b>159,52</b>	<b>-0,1500</b>
S1	156,4	
S2	154,54	

**Overnight**, Chinese stock markets gain more than 2% after yesterday's 7% losses on the back of reported government buying. Other Asian equity indices trade positive as well with Japan slightly underperforming. The US Note future trades modestly lower suggesting a neutral to weaker opening for the Bund as well.

**Today**, trading might be numbed ahead of the payrolls report. Asian risk sentiment took a turn for the better, suggesting some rebound in European stock markets as well. Oil prices also prolong yesterday's rebound. For core bond markets, this protects the upside ahead of the payrolls. We expect an overall strong report. Headline job growth, the unemployment rate and average hourly earnings might all beat expectations. **That should trigger profit taking on this week's core bond rally with US Treasuries underperforming.** In case of a weak payrolls, core bond could head for a test of the upper bound of the sideways trading ranges since November, respectively between 156.40 & 160.66 and 125-01 & 127-10, but we don't anticipate a sustained break higher. A return of severe risk aversion is a wild card. 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 firm bottom below yields.



German Bund: Sideways trading range. Potential bearish engulfing signal suggests return to downside range.



US Note future: Topside protected by start Fed tightening cycle. Sell-on-upticks, especially in case of stronger payrolls

# Currencies

## Good payrolls to support the dollar, but...

On Thursday, market turmoil continued to weigh on the dollar.

Loss of USD/JPY was moderate  
EUR/USD made significant rebound

R2	1,106	-1d
R1	1,0946	
<b>EUR/USD</b>	<b>1,0871</b>	0,0053
S1	1,0711	
S2	1,0524	

China crisis eases overnight, as PBOC set yuan fixing little changed.

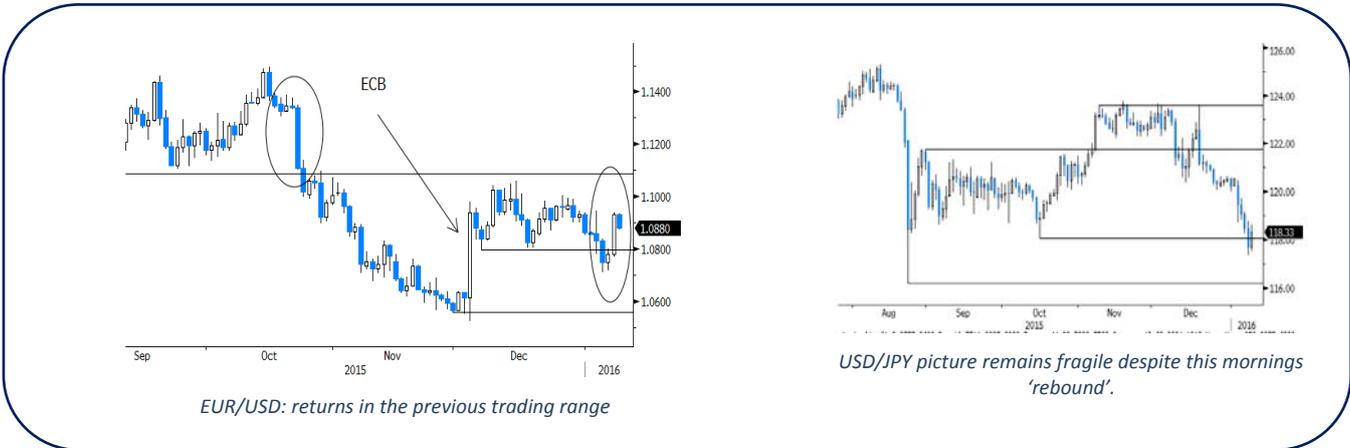
Dollar regains slightly ground

US payrolls might be supportive for the dollar short-term, but possibility of renewed China turmoil may hamper 'big' USD gains.

On Thursday, the China-driven market crisis continued unabatedly. Contrary to previously, this resulted in a 'normal' risk-off trade in the major FX cross rates. The carry funding currencies advanced, with the euro this time taking the lead. The gains of the yen against the dollar were less pronounced. A late session down-leg on the US equity markets put additional pressure on the dollar. USD/JPY closed the session at 117.67 (from 118.47 on Wednesday). The loss of the dollar against the euro was even more pronounced, as EUR/USD closed the session at 1.0932 (from 1.0781)

This morning, Asian markets entered calmer waters. The PBOC fixed the yuan marginally stronger compared to yesterday. The off-shore yuan opened stronger as well, but returned most of the gains. Trading on Chinese equity markets remains volatile after Chinese authorities suspended the 7% circuit breaker. At the moment of writing, Chinese indices show about 3% gains. Most other Asian indices show modest gains. The easing of tensions in China also helps the dollar off the recent lows against the euro and the yen. USD/JPY trades currently in the 118.35 area. EUR/USD is changing hands around 1.0875. Oil is off yesterday's low with Brent trading at \$ 34.25 p/b.

Today, the focus is on the US payrolls report, while in the euro area, only some second-tier data are on the agenda. Also in the US, Fed's Williams and Lacker are scheduled to speak. Despite rather mixed US eco data over the last few months, the labour market recovery remains on track for now. The consensus is looking for an increase in non-farm payrolls by 200 000, broadly in line with last year's trend. We see upside risk for today's payrolls. Strong payrolls should support the case for the Fed gradual tightening scenario (the dots suggested 4 hikes) and for a stronger dollar. At the same time, markets will read the outcome of the payrolls in the light of the recent global developments.



Over the previous days, US and EMU eco data were often ignored. We don't expect the FX market to ignore a substantial (positive) surprise in the payrolls, but dollar gains may be guarded. Indeed, it is too early to conclude that China driven volatility is over. To conclude: we expect a good payrolls report (our preferred scenario) to be moderately positive for the dollar..

On the other hand, disappointing payrolls might intensify investor concerns and weigh on the dollar. There is even risk for an asymmetrical reaction (bigger loss in case of a poor report). **Earlier this week, we didn't jump on the EUR/USD decline even as the technical picture turned negative after the break below 1.08, but favoured** to sell EUR/USD higher in the trading range (e.g. closer to the 1.10/1.11 area). We maintain that view and stay cautious to buy the dollar already at current levels, even as we see chances for positive short-term reaction to the payrolls.

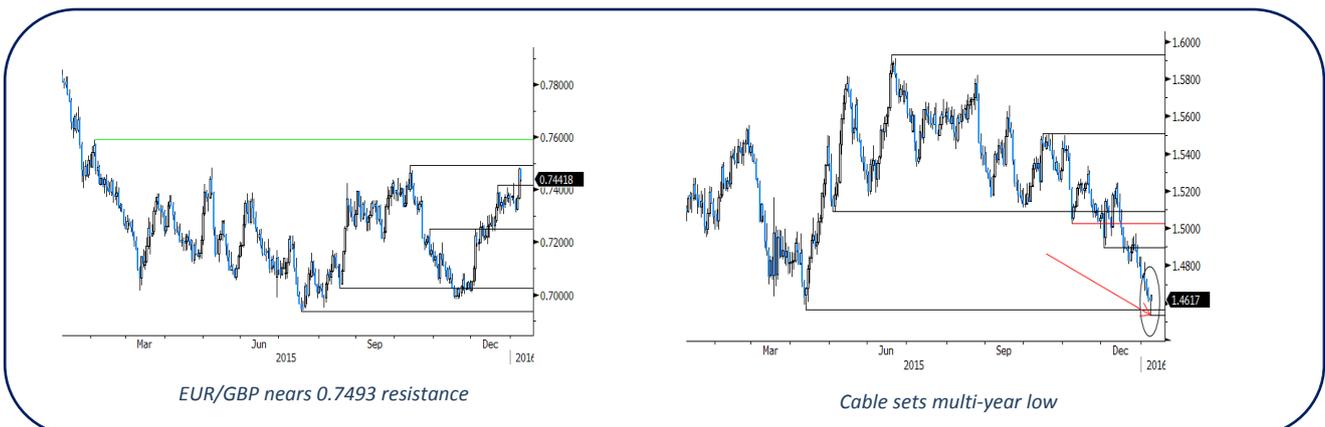
**From a technical point of view**, EUR/USD failed to regain important resistance (previous range bottom/break down at 1.1087 and the 62% retracement from the October high at 1.1124) after the December ECB meeting. This week, EUR/USD dropped temporarily below 1.0796 (07 Dec low), deteriorating the short-term picture. However, this attempt was finally rejected too. Next support is at 1.0650 (76% retracement off 1.0524/1.1060) and at 1.0524. On the topside, 1.1004 (reaction top) is a first important reference. Next resistance comes in at 1.1060 (15 Dec top) **The picture for USD/JPY remains negative below 120**. The 118.07 level (15 Oct low) was (temporary?) broken yesterday. Next support comes in at 116.18 (August low).

R2	0,7766	-1d
R1	0,7493	
EUR/GBP	<b>0,7439</b>	0,0044
S1	0,7305	
S2	0,7193	

### EUR/GBP nears key 0.7493 support

**Sterling was hit hard yesterday**. The global risk-off trade, a downleg in the oil price and heavy selling in commodity-related equities all conspired against the UK currency. Cable regained some ground late in the session (USD weakness and maybe due to the rebound in oil). Cable closed the session at 1.4618 (from 1.4630). However; EUR/GBP closed the day at 0.7478; near the intraday high and also within reach of the key 0.7493 resistance.

**Today**, the UK November trade data will be published. A 'substantial' improvement is expected. We take a similar view from the consensus. **The report might be mildly positive for sterling, but it won't be a game changer**. Global factors continue to play an important role for sterling trading. Yesterday, sterling was initially hit hard by the China-related risk-off trade and by the decline in the oil price. **The jury is still out, but yesterday's late-session rebound in cable might be an indication that the GBP sell-off was a bit overdone short-term**. A sustained rebound of sterling will be difficult unless there are signs of progress in the Brexit debate or unless risk sentiment improves. For now, we look out whether the key 0.7493 (Oct top) holds. A drop below the 0.73 area would call off the ST uptrend, but this looks unlikely short-term, considering the price action earlier this week. **The technical picture** of sterling against the dollar remains fragile. The key GBP/USD 1.4566 (2015 low) was extensively tested yesterday, but for now no sustained break occurred.



# Calendar

Friday, 8 January		Consensus	Previous
<b>US</b>			
14:30	<b>Unemployment Rate (Dec)</b>	5.0%	5.0%
14:30	<b>Change in Nonfarm Payrolls (Dec)</b>	200k	211k
14:30	<b>Average Hourly Earnings MoM/YoY (Dec)</b>	0.2%/2.8%	0.2%/2.3%
14:30	Average Weekly Hours All Employees (Dec)	34.5	34.5
14:30	Labor Force Participation Rate (Dec)	--	62.5%
16:00	Wholesale Inventories MoM (Nov)	-0.1%	-0.1%
<b>Canada</b>			
14:30	Unemployment Rate (Dec)	7.1%	7.1%
14:30	Net Change in Employment (Dec)	10.0k	-35.7k
<b>Japan</b>			
00:50	Official Reserve Assets (Dec)	A \$1233.2b	\$1233.0b
02:30	Labor Cash Earnings YoY (Nov)	A 0.0%	0.7%
02:30	Real Cash Earnings YoY (Nov)	A -0.4%	0.4%
06:00	Leading Index CI (Noc P)	A 103.9	104.2
06:00	Coincident Index CI (Noc P)	A 111.6	113.3
<b>UK</b>			
10:30	<b>Visible Trade Balance GBP/Mn (Nov)</b>	<b>-£10500</b>	<b>-£11827</b>
10:30	Trade Balance (Nov)	-£2700	-£4140
<b>Germany</b>			
08:00	<b>Industrial Production SA MoM/WDA YoY (Nov)</b>	<b>A 0.3%/0.1%</b>	<b>0.2%/0.0%</b>
08:00	<b>Trade Balance (Nov)</b>	<b>A 20.6b</b>	<b>22.5b</b>
08:00	Exports SA MoM (Nov)	A 0.4%	-1.2%
08:00	Imports SA MoM (Nov)	A 1.6%	-3.4%
<b>France</b>			
08:45	Trade Balance (Nov)	-3947m	-4582m
08:45	<b>Industrial Production MoM/YoY (Nov)</b>	<b>-0.3%/3.0%</b>	<b>0.5%/3.6%</b>
08:45	Manufacturing Production MoM/YoY (Nov)	0.1%/--	-0.5%/1.5%
<b>Italy</b>			
10:00	Deficit to GDP YTD (3Q)	--	3.2%
<b>Norway</b>			
10:00	Industrial Production MoM YoY (Nov)	--/--	-2.6%/-3.0%
10:00	Ind Prod Manufacturing MoM YoY (Nov)	--/--	-2.3%/-8.4%
<b>Sweden</b>			
09:30	Industrial Production MoM YoY (Nov)	0.1%/4.5%	-1.1%/4.0%
09:30	Industrial Orders MoM YoY (Nov)	--/--	-19.2%/3.5%
09:30	Service Production MoM YoY WDA (Nov)	--/--	-0.3%/3.0%
<b>Events</b>			
09:30	Swedish- Riksbank Publishes Minutes		
17:30	<b>Fed's Williams Speaks on Outlook in Santa Barbara</b>		
19:00	<b>Fed's Lacker Speaks in Baltimore to Maryland Bankers</b>		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,18	0,04	US	0,99	0,02	DOW	16514 16514,10
DE	0,54	0,04	DE	-0,38	0,00	NASDAQ	17698 17697,96
BE	0,90	0,05	BE	-0,34	0,00	NIKKEI	9979,85 9979,85
UK	1,80	-0,01	UK	0,50	-0,01	DAX	3085 3084,68
JP	0,24	-0,01	JP	-0,01	0,00	DJ euro-50	

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	0,004	1,261	1,136	Euribor-1	-0,21	0,00	Eonia EUR	-0,233	0,02
5y	0,258	1,572	1,408	Euribor-3	-0,14	0,00	Libor-1 USD	0,51	0,51
10y	0,904	2,054	1,834	Euribor-6	-0,04	0,00	Libor-3 USD	0,59	0,59
							Libor-6 USD	0,75	0,75

Currencies	-1d	Currencies	-1d	Commodities	CRB	GOLD	BRENT
EUR/USD	1,0871 0,0053	EUR/JPY	128,75 1,23		169,4543	1102	34,43
USD/JPY	118,46 0,57	EUR/GBP	0,7439 0,0044	-1d	-3,61	2,20	1,64
GBP/USD	1,4609 -0,0018	EUR/CHF	1,0851 0,0006				
AUD/USD	0,7061 0,0033	EUR/SEK	9,2341 -0,03				
USD/CAD	1,4070 -0,0059	EUR/NOK	9,6655 -0,02				

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