



Sunrise

Monday, 09 November 2015

Strong payrolls hit core bonds

A Dec lift-off is now largely priced in after the strong payrolls. US Treasury curve shifted upwards with 5-7 year yields raising the most. In EMU, German curve steepened sharply with 10-30-year yield spread widening further. Today, an empty calendar. Time to digest Friday's losses?

USD is coming closer to the cycle highs in the wake of a strong US payrolls

On Friday, US payrolls were very strong. The dollar received additional interest rate support. EUR/USD dropped to the low 1.07 area. USD/JPY jumped beyond the 123 level. Today, some consolidation on the post-Payrolls rally might be on the cards as the calendars in the US and in Europa are almost empty.

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 held up quite well after the strong US payrolls report** The S&P closed marginally in the red. Overnight, **Asian equities** are trading mixed, except China and Japan which continue to soar.
- The **Chinese trade data was very weak**, showing **Chinese exports falling -6.9% Y/Y**, compared to a drop of -3.7% Y/Y last month. Chinese **imports fell even more, with -18.8% Y/Y**, slightly better from last month's -20.4% Y/Y, **causing the Chinese trade balance to increase to a record \$61.64b**.
- **Portugal is in the midst of a political crisis** after prime minister Coelho lost its majority in parliament, which swung left. This week the **parliament stands to vote on Presidents Coelho's government programme**.
- **Finish government averts a collapse** after reaching a deal over health-care reform early Saturday morning.
- Indian **Prime Minister Narendra Modi's Party (BJP) conceded a defeat in pivotal state elections of Bihar**, where the Janata Dal party, led by Nitish Kumar won 178 from the 243 seat.
- **Commodities** are in the corner taking the hits, with **Gold falling almost -2%** Friday on the strong US payrolls report. Oil also lost some ground, **Brent Crude trades at 47.86\$/barrel**.
- Today the **eco-calendar is empty** with no market moving news from the US nor the EMU. Interesting to watch today is the **OECD releasing its economic outlook**. Also **Fed's Rosengren is speaking** on the U.S. eco outlook.

Rates

Core bonds hard hit on payrolls

Longer end German curve continues to steepen

Fed Dec lift-off now very likely

Political troubles in Portugal

	US yield	-1d
2	0,8941	0,0646
5	1,7423	0,1150
10	2,329	0,1021
30	3,0853	0,0885

Now attention will shift to what kind of cycle after the Dec lift-off.

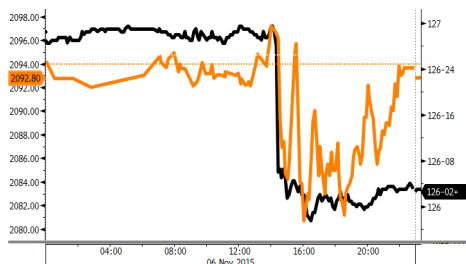
What means "gradual"?

	DE yield	-1d
2	-0,2862	0,0313
5	0,0081	0,0650
10	0,6918	0,0928
30	1,5351	0,1309

Core bonds slaughtered on stellar payrolls

Global core bond suffered a huge blow from a stellar US payrolls report. A December lift-off by the Fed seems now carved in stone. October payrolls were impressive with a 271k headline number, a 5.0% unemployment rate and 2.5% Y/Y wage growth. The US Note future dropped below 126-16 support, opening the path towards a correction low at 123-30+. The Bund fell below the lower bound of the uptrend since July and below the 155.71 support. The technical pictures change from bullish to neutral for Bunds and to negative for US Treasuries. The market implied probability for a December rate hike increased from 56% ahead of the payrolls to 70% after the release. They even attach a 36% probability that the Fed will hike a second time by March 2016. In a daily perspective, the US yield curve shifted 6 bps (2-yr) to 10.2 bps (7-yr) higher. The US 10-yr yield extensively tested 2.3% resistance and closed at 2.32%. The German yield curve bear steepened with yields 2.6 bps (2-yr) to 10.1 bps (30-yr) higher. On intra-EMU bond markets, 10-yr yield spreads versus Germany ranged between -1 bp and +3 bps with Greece outperforming (-11 bps).

Markets are now convinced that the Fed will hike rates in December. After the release, St. Louis Fed Bullard said the case continues to be compelling for a lift-off. He warned again though that payrolls growth will slow down in coming months given the stage of the economic recovery. San Francisco Fed Williams said the US economy has reached at least one measure of full employment and unveiled that the decision to keep rates unchanged in the October meeting was a close one. He admitted that the October press release mentioning explicitly the December meeting as a "live" meeting was a little bit of a step back towards a data-based guidance. He refrained from predicting a rate increase in December and will be watching data before making up his mind. Both governors added though that interest rate increases in the future will be gradual as promised. Even Chicago Fed Evans, one of the FOMC doves, said: "absolutely, December is alive possibility for rate hike. He added that the FOMC has indicated conditions may be ripe for a rate hike. He remained concerned about inflation but will go into FOMC meetings with an open mind. Attention will now focus on what happens after the lift-off. Fed governors will try to avoid markets to run away, but ultimately it will be the data that decide on the pace of tightening.



US Note future (black) and S&P future (orange): Steep drop of US Treasuries on strong payrolls, but once again equities hold on quite well.



US 2-yr yield at highest level since 2011, breaking through resistance as attention shifts from lift-off to the kind of gradualism after lift-off.

R2	156,82	-1d
R1	156,1	
BUND	155,19	0,0000
S1	155,03	
S2	154,31	

Regarding bond supply, activity is subdued in EMU, Holland taps the 0% April 2018DSL for €2-3B (Tuesday), Germany taps the Bund April 2030 for €1B (Tuesday) and the 0.25% Oct. 2020 Bobl for €3B Wednesday). Finally, the Italian Tesoro holds its BTP/CCT auction on Thursday (€8B). **So, in total issuance mounts to €15B, while redemption and coupon payments are at only €0.5B.** In the US the Treasury holds its mid-month financing operation, starting with a 3-year T-Note auction today, followed by the 10-year T-Note auction on Tuesday and the 30-year bond auction on Thursday. Activity will be slow on Wednesday as some European countries (Not UK) and US markets are close to honour the end of the world war.

Markets today: Digesting Friday's steep losses?

Overnight, mixed Asian stock markets with China and Japan outperforming and trading up to 2% higher. We suspect the former gains are due to expectations of more stimulus after dreadful trade data. Japanese equities probably profit from yen weakening. The T-Note future is slightly lower, but that may be due to some catching up of Asian investors. We expect the Bund to open little changed.

Today's calendar doesn't give many impetus for a further directional moves. Eco calendar is nearly empty. Fed Rosengren is a dove, but he isn't very influential inside the FOMC. The US 3-year T-Note auction will be interesting, as a first signal whether investors consider the higher yields as an opportunity to buy. It should be of minor importance for the overall market. Therefore, we expect sideways trading today. In Portugal, the new minority government of Passos Coelho may soon lose a vote of confidence. It might lead to political uncertainty and thus some underperformance in Portuguese bonds. Finnish government didn't collapse as was feared.

Post payrolls, the **technical pictures for the US T-Note and the Bund deteriorated.** The Dec T-note future fell through key 126-16 support, painting double top on the charts 1st target: 123-23, minor support at 125-26+/20 (US 10-year yield broke 2.3% resistance, but confirmation needed). Regarding the Bund, it broke below bottom uptrend channel (156.10 today 1st resistance) and below neckline triple top at 155.71 (1st target: 154.31). Next key support at 153.50. **Following the change for the worse of the technical pictures, we keep a more neutral position. We don't expect too much losses for the Bund and await signs the sell-off have fizzled out.**



German Bund: below uptrendline and bearish painting triple top on the charts. Overall though we don't expect major further losses



US Note future: 126-16 support lost, making the picture bearish and a tough nut to crack?

Currencies

Payrolls propel USD beyond key resistance

Strong payrolls trigger substantial further USD gains

On Friday, the US payrolls were much stronger than expected. Payrolls increased by 271K, the highest monthly growth this year. Unemployment rate dropped to 5% and wage growth (2.5% Y/Y) accelerated. **US bond yields jumped higher as markets embraced the scenario of a December rate hike. EUR/USD dropped from the 1.0870 area to the low 1.07 area, cruising through the 1.0809 support area. USD/JPY jumped decisively beyond the 122 area. EUR/USD closed the session at 1.0741 (from 1.0884 on Thursday). USD/JPY ended the week at 123.13, up from 121.75.**

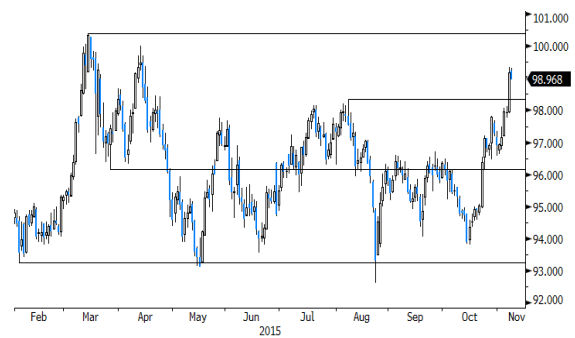
USD holding strong in Asia this morning.

R2	1,1072	-1d
R1	1,0809	
EUR/USD	1,0758	-0,0097
S1	1,0521	
S2	1,0458	

This morning, the outcome of the US payrolls remained an important factor for trading on Asian markets. Most Asian equity markets excluding Japan and China trade in negative territory. A strong dollar and higher US interest rates are seen a potential negative for funding conditions in emerging markets. Poor Chinese external trade data are a negative, too. Even so, Chinese and Japanese equities rally. The jump in USD/JPY supports Japanese equities. The pair touched a new correction top in the 123.48 area this morning and is trading in the 123.30 area at the moment of writing. Disappointing Chinese trade data support the view that policy stimulation will stay ample for some time to come. **Even so, the stronger dollar and poor China data are weighing on commodities and on the commodity currencies.** AUD/USD dropped to the 0.7020 area overnight but is rebounding slightly. EUR/USD shows a similar picture. EUR/USD is off Friday's post-payrolls lows and trades currently in the 1.0765/70 area.



EUR/USD: drops below key support, bringing the cycle lows again in the picture



Trade weighed USD: nearing the cycle top

Tion

Today, the eco calendar is thin

Dollar ripe for some consolidation after post-Fed gains?

Today, there are only second tier eco data on the agenda in Europe. The eco calendar in the US is even empty. The OECD will give its economic outlook, but we don't expect really strong guidance for global currency trading. Fed's Rosengren (a dove) will speak on the US economy. He will probably join the campaign to convince markets that normalisation process will develop in a very gradual way. **We also look out for comments from ECB members.** How tough will they talk on further easing? The ECB will probably be happy with the course of events on the currency market. However, they probably won't push for an accelerated decline of the euro from current levels.

USD has broken beyond key resistance levels. Cycle lows/highs in EUR/USD and USD/JPY at respectively 1.0458 and 125.86 come on the horizon.

In a day-today, we expect consolidation, both in EUR/USD and in USD/JPY in the wake of Friday's strong USD gains. For now, we still don't see a trigger to really row against the tide.

In a broader perspective, the dollar has strengthened recently against the euro and the yen. **Interest rate differential at the short end widened in favour of the dollar.** EUR/USD dropped below the key 1.0809 support and also reached the targets of the multiple top formation (neckline 1.1087/1.1105) in the low 1.0715 area. With policy divergence between the Fed and the ECB (and to a lesser extent also the BoE) still in place, we don't row against the USD uptrend. However, quite some good (interest rate) news might already be discounted. So, the pace of the USD rally might slow. The post QE lows in EUR/USD 1.0521/1.0458 area are the most obvious targets on the EUR/USD charts. We hold on to a EUR/USD sell-on upticks strategy for a retest of the cycle lows. For USD/JPY, the cycle tops in the 125.28/86 area come on the radar.

R2	0,725	-1d
R1	0,7197	
EUR/GBP	0,7141	0,0085
S1	0,7109	
S2	0,7042	

Sterling shows mixed picture post US payrolls

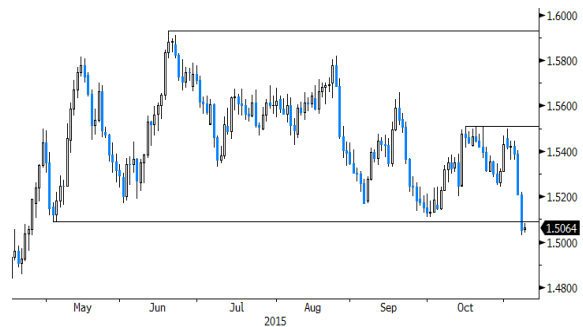
On Friday morning, sterling remained under pressure against euro and dollar. Follow through selling after Thursday's dovish BoE message dominated. The UK eco data were okay. The trade deficit narrowed in September. Industrial production was a tad weaker (-0.2% M/M/ 1.1% Y/Y) than expected, but the cyclical manufacturing output slightly exceeded expectations. EUR/GBP went a few ticks lower, but immediately sterling was sold. **In the afternoon, sterling fought back when EUR/GBP failed to take out the 0.72 resistance**. After the strong payrolls, EUR/USD underperformed cable and EUR/GBP dropped to 0.7110/20 area. The pair closed the session at 0.7137 (from 0.7156). **Cable still ceded a lot of ground after the payrolls. The pair closed the session at 1.5053 (from 1.5208).**

Today, there are no important eco data on the agenda. So, EUR/GBP and cable might enter calmer waters. The UK labour market report, expected on Wednesday, will be key for sterling trading this week. Will a strong/decent report bring a BoE rate hike again on the radar?

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. A retest occurred last week, but the test was rejected. **We maintain a sell-on-upticks approach for EUR/GBP.**



EUR/GBP: test of the 0.72 resistance rejected



Cable: drops below key support on USD strength

Calendar

Monday, 9 November		Consensus	Previous
China			
	Foreign Direct Investment YoY CNY (Oct)	5.4%	7.1%
Japan			
00:50	Official Reserve Assets (Oct)	A: \$1244.2b	\$1248.9b
02:30	Labor Cash Earnings YoY (Sep)	A: 0.6%	0.5%
02:30	Real Cash Earnings YoY (Sep)	A: 0.5%	0.2%
EMU			
10:30	Sentix Investor Confidence (Nov)	13.1	11.7
Germany			
08:00	Trade Balance (Sep)	20.0b	15.3b
08:00	Current Account Balance (Sep)	21.9b	12.3b
08:00	Exports SA MoM (Sep)	2.0%	-5.2%
08:00	Imports SA MoM (Sep)	1.0%	-3.1%
France			
08:30	Bank of France Bus. Sentiment (Oct)	98	97
Canada			
14:15	Housing Starts (Oct)	200.0k	230.7k
Sweden			
09:30	Household Consumption MoM/YoY (Sep)	0.7%/2.5%	-0.5%/1.4%
Events			
	EMU - ECB's Coeure Participates in Eurogroup Meeting in Brussels		
11:30	EMU - OECD Economic Outlook		
18:00	US - Fed's Rosengren Speaks on Outlook for U.S. Economy		
19:00	US - Holds 3-year note auction		

Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Joke Mertens	+32 2 417 30 59	Institutional Desk	+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94	France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)			
Jan Cermak	+420 2 6135 3578	Prague	+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8809	Bratislava	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	Budapest	+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE ON WWW.KBCCORPORATES.COM/RESEARCH

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

