



Sunrise

Tuesday, 01 December 2015

Rates: Sub-50 reading for US manufacturing ISM?

Today's agenda focusses on global manufacturing PMI's. Chinese readings were mixed this morning and the US ISM risks dropping below the 50 boom/bust mark for the first time since 2012. That could protect the intraday downside for US Treasuries. For the Bund, we believe some reduction of long positions is possible ahead of the ECB.

Currencies: USD ripe for some consolidation after the recent rally?

EUR/USD touched a minor new correction low yesterday, but the move had no strong momentum. This morning, sentiment on risk turned risk-on in Asia but it doesn't help the dollar. Is the dollar ripe for some consolidation after the recent gains and given some poor US data of late?

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 | ↓ |

- Yesterday, **European equities** ended the session with modest gains after rallying back from a weak open. **US equities** had a weaker session, with the S&P losing -0.46%, struggling to get back to the recent highs. Overnight, **Asian equities** are having a profitable session, with indices showing gains up to 2.1% in China.
- **The IMF has admitted China's Yuan into its benchmark currency basket**, indicating that China has implemented enough reforms to please the fund. **The Yuan will enter in October 2016 and will hold a 10.92% share in the basket.**
- **The Chinese PMIs came out mixed**, as the **Chinese manufacturing PMI showed a reading of 49.6** (vs 49.8 expected), coming from 49.8 in October. The **Caixin manufacturing PMI also show a contraction at 48.6** (vs 48.3 expected). Meanwhile, **the services PMI came in at 53.6, coming from 53.1 the previous month.**
- **The Reserve Bank of Australia has left its benchmark interest rates stable at the 2% low**, but they remain positive on the prospect of the economy. **The Aussie trade data came out very strong, with net export adding 1.5% Q/Q to the GDP alone**, as exports were up 5% Q/Q en imports were down 2% Q/Q.
- **The Indian central bank has decided to hold its benchmark interest rates stable at 6.75%** after having cut interest rates already four times this year.
- **Crude prices remain weak, with Brent Crude currently trading at 44.9\$/barrel**, ahead of the OPEC meeting in Austria later this week.
- **Today the eco-calendar is somewhat more filled.** In the **US** there are the **Markit Manufacturing PMI** and the **ISM manufacturing data**. In the **EMU**, there is also the **Markit manufacturing PMI** data for the eurozone.

Rates

Core bonds mixed in yet another “wait and see” session

Mixed performance bonds

US curve bear flattens

German curve bear steepens

| | US yield | -1d |
|----|----------|---------|
| 2 | 0,9463 | 0,0159 |
| 5 | 1,6626 | 0,0049 |
| 10 | 2,2271 | 0,0000 |
| 30 | 2,992 | -0,0103 |

Global core bonds traded mixed in an uneventful session. In the US, the curve bear flattened with the 2-yr yield 1.2 bps higher and the 30-yr yield 2.5 bps lower. This smells like some modest positioning on expected Fed policy tightening. In the German Bund market, investors very modestly scaled back long positions ahead of the ECB and after a failed test of the highs in the Bund on Friday and on the back of moderate equity strength. German inflation, as expected, had no impact on trading and neither had a very weak Chicago PMI. German yields were unchanged at the 2-yr, up about 1 bp in the 5-to-10 yr area and 3 bps higher further out. This week’s back-loaded calendar keeps investors sidelined. On intra-EMU bond markets, 10-yr yield spreads changes versus Germany were minimal with a Greece underperformance (+19 bps) on news that hackers targeted Greek banks.

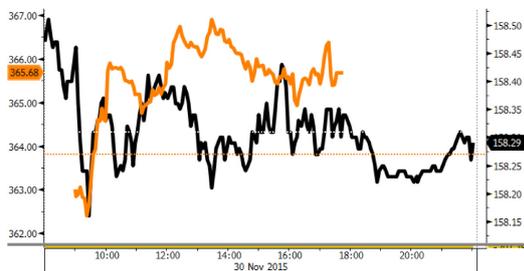
Business sentiment day!

Downside risks to US ISM

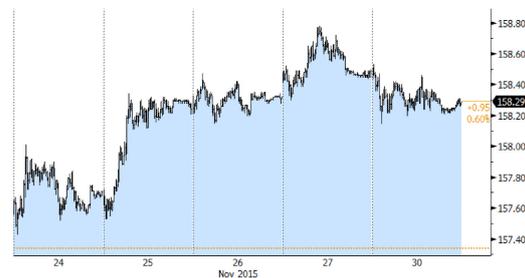
EMU unemployment rate to stabilize

| | DE yield | -1d |
|----|----------|--------|
| 2 | -0,4120 | 0,0020 |
| 5 | -0,1695 | 0,0155 |
| 10 | 0,4897 | 0,0345 |
| 30 | 1,3378 | 0,0388 |

Today the eco-calendar is somewhat more filled. In the US, there are the ISM manufacturing data and the Markit PMI Manufacturing survey. The ISM manufacturing data for November is expected to improve from 50.1 to 50.5. However, we feel that there are some downward risks in the manufacturing as the sector is still adjusting to slower global demand. The KBC Nowcast projection for the ISM is 49.8. In the eurozone, the Markit manufacturing PMI is expected to remain stable at 52.8 in November for the final reading. Here, we side with the market expectations. The euro area unemployment rate is expected to have stabilized at 10.8% in October, but the downward trend is intact. In the UK, manufacturing service confidence will be published and earlier this morning the Chinese PMI’s were mixed. The official measure fell slightly (to 49.6) while the Caixin measure slightly improved (to 48.6). So, overall it looks like the manufacturing sector has still difficulties at the global level, contrary to the services sector where sentiment improves.



Bund future (black) & Eurostoxx (orange): Modest profit taking Bund at opening, followed by sideways trading. Equities go higher.



Bund (5 days): Uneventful trading ahead of ECB with a technically-inspired test of the highs on Friday.

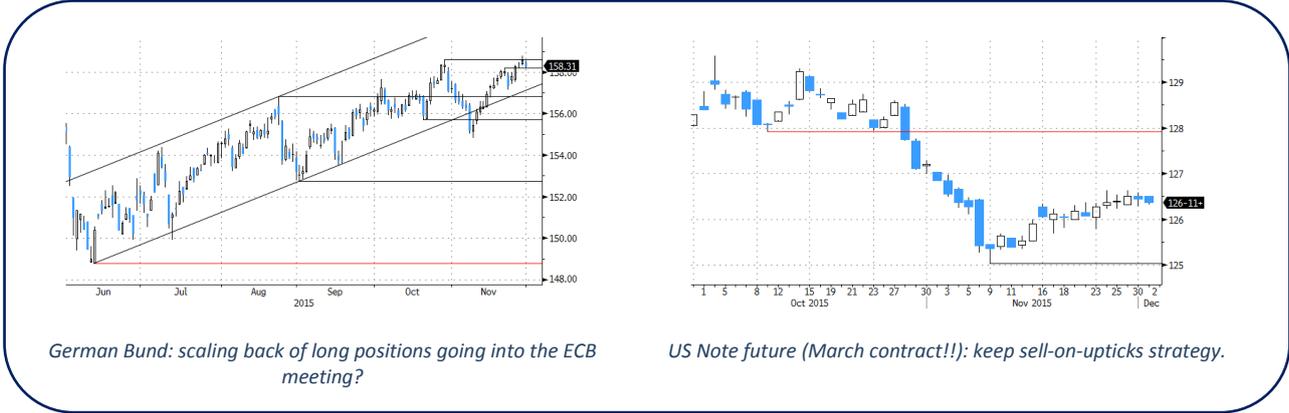
Today: Weak ISM able to lift US Treasuries?

| | | |
|-------------|---------------|---------|
| R2 | 160,62 | -1d |
| R1 | 158,78 | |
| BUND | 158,29 | -0,1600 |
| S1 | 157,19 | |
| S2 | 154,81 | |

Overnight, most Asian stock markets trade positive with some indices gaining up to 2% with plenty of news. Chinese PMI's were mixed (see higher). The IMF added the renminbi to its SDR basket, effective late 2016, Japanese capital spending was very strong in Q3 and the RBA kept policy unchanged. The US Note future is marginally lower overnight. **If positive risk sentiment spills to Europe, it could weigh on the Bund in the opening.**

Today, the eco calendar focusses on **global manufacturing PMI's (final EMU, UK and US ISM).** We especially keep a close eye on the US gauge. We believe that risks are on the downside of expectations with even a chance of a sub-50 outcome (see above). That would be the first time since the end of 2012 and protect the intraday downside of US Treasuries ahead of Yellen's speech (tomorrow) and the payrolls (Friday). **Central bankers include Chicago Fed Evans and Washington-based governor Brainard.** Both are dovish voices inside the FOMC and prefer to wait a bit longer. Therefore we look for signs that they nevertheless join the majority and endorse a small rate increase in December with the onus on the very gradual tightening cycle afterwards. **In the US Treasury market, we hold our sell-on-upticks approach.**

In Europe, **we think that some scaling back of Bund long positions will be considered in the run-up to Thursday's meeting given the very dovish positioning.** The proximity of key resistance (158.60/78 for the Bund; 0.42% 10-yr yield) could trigger some correction as well.



German Bund: scaling back of long positions going into the ECB meeting?

US Note future (March contract!!): keep sell-on-upticks strategy.

Currencies

USD rally to run into resistance?

EUR/USD set minor new correction low, but no clean break.

Asian data are mixed

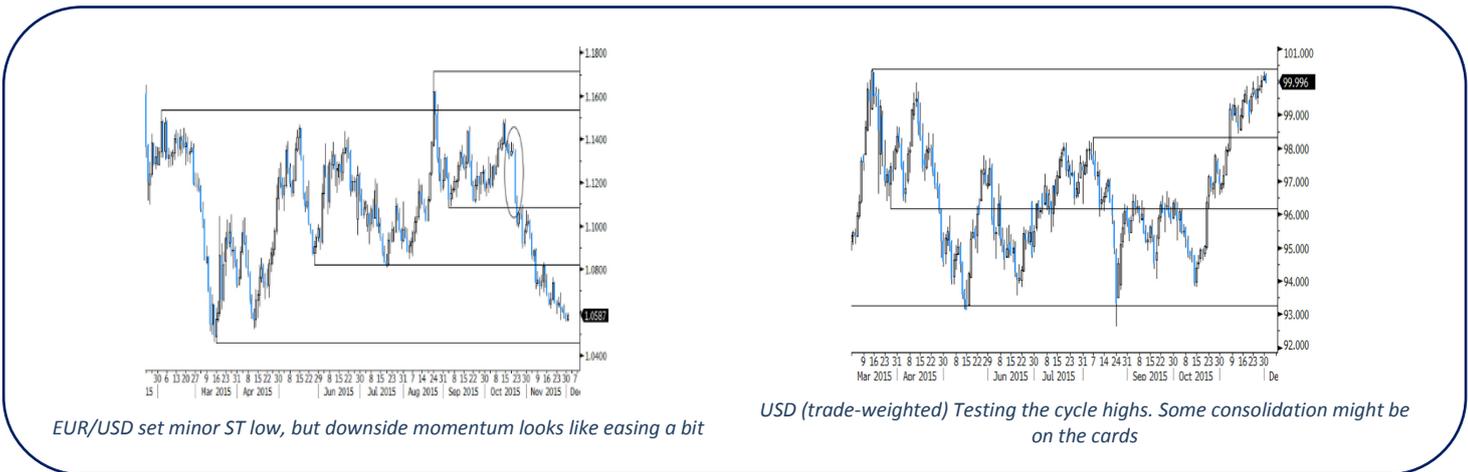
Sentiment on risk turns positive and equities rebound.

The dollar is losing a few ticks against the euro and the yen

On Monday, trading in the major currency cross rates developed along the same lines as it did of late. Market anticipation on further ECB easing kept the euro under modest pressure. EUR/USD set a minor correction low below 1.0566. USD/JPY profited from a constructive risk sentiment and a slight rise in core bond yields. EUR/USD closed the session at 1.0565 (from 1.0593 on Friday). USD/JPY closed the session at 123.11 (from 122.80)

This morning, Asian equities markets turned into risk-on modus even as regional are data mixed. The Chinese manufacturing PMI's remained weak, holding below the 50 boom-or bust level. The non-services measure improved to 53.6. Chinese equities underperformed early in the session, but are catching up since. The yuan is little changed at 6.3980/85 after the IMF allowed the Chinese currency to the SDR basket. Japanese capex data were much stronger than expected at 11.2% Y/Y. This suggests an upward revision of the Q3 GDP. USD/JPY lost some ground, but it was due to a small dip in the dollar rather than yen strength. Even so, the losses in USD/JPY are contained as equities perform well. USD/JPY trades currently in the 122.95 area. The Reserve bank of Australia, as expected, kept its policy rate unchanged at 2%. The statement maintained a neutral tone. Earlier this morning, the Aussie dollar rebounded to the 0.7280/85 area on strong trade data (positive contribution to GDP). Commodities are also in better shape. Remarkably, the risk-on sentiment this time doesn't help the dollar. EUR/USD is off yesterday's lows. The pair is trending higher high. The 1.06 barrier is coming with reach.

| | | |
|---------|--------|--------|
| R2 | 1,083 | -1d |
| R1 | 1,0773 | |
| EUR/USD | 1,0589 | 0,0008 |
| S1 | 1,0558 | |
| S2 | 1,0521 | |



US manufacturing ISM is the key data release for USD trading

IS the dollar ripe for some profit taking?

Today, the final EMU manufacturing PMI will be published, but no market reaction is expected. In the US, the manufacturing ISM has more market moving potential. A modest rebound from 50.1 to 50.5 is expected, but we see downside risks to the consensus. The ISM release shouldn't affect the Fed policy intentions (Dec lift-off). However, some limited USD profit taking is possible if it would drop below the 50 mark. (Currency) markets show some ambiguous signals this morning. Sentiment on risk is constructive, but the dollar is drifting slightly off the recent highs.

The 'rebound' in commodities might be slightly negative for the dollar (cf. rebound of gold). So, the dollar might be ripe from some consolidation/profit taking after the recent rally and given rather mediocre US data of late. Even so, we don't expect a big U-turn, especially not in EUR/USD ahead of the ECB policy decision. Euro caution will remain also in place due to expected ECB easing.

Topside of the euro looks well protected going into the ECB policy decision

From a technical point of view, EUR/USD dropped below the 1.0809 support and reached the targets of the short-term multiple top formation in the low 1.0715 area. With policy divergence between the Fed and the ECB still in place, we don't row against the EUR/USD downtrend, but the pace of the USD rally may slow. The post ECB QE lows in EUR/USD (1.0521/1.0458 area) are obvious targets on the charts. We maintain 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 came on the radar, but a test looks difficult short-term.

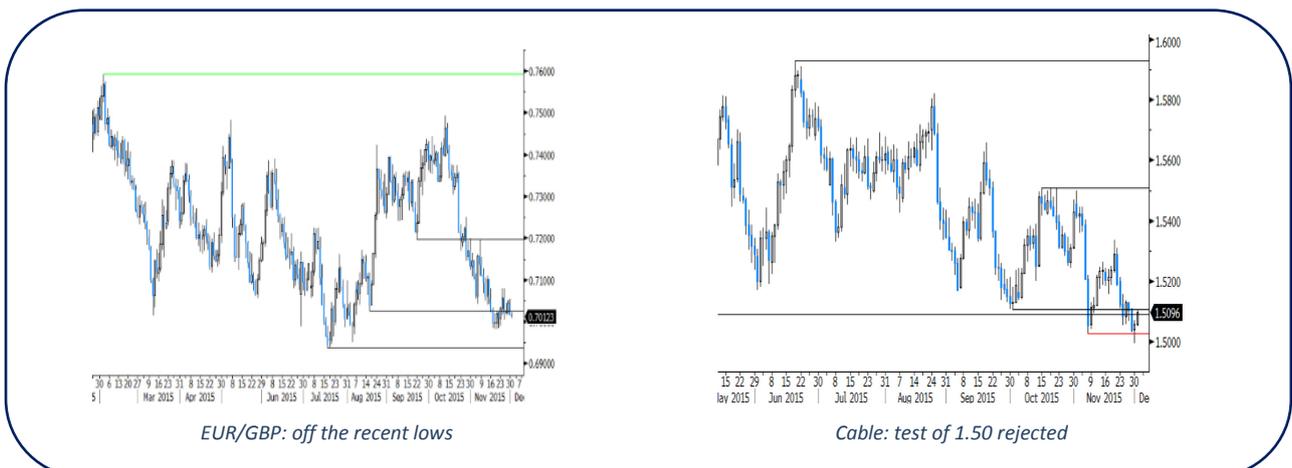
| | | |
|----------------|--------------|----------------|
| R2 | 0,725 | -1d |
| R1 | 0,7197 | |
| EUR/GBP | 0,701 | -0,0029 |
| S1 | 0,6982 | |
| S2 | 0,6936 | |

Cable testing the 1.50 barrier

On Monday, the global USD trends drove sterling trading. The UK lending data were close to expectations and had no lasting impact on sterling trading. USD strength was the key factor. **Cable dropped briefly below the 1.50 barrier, but the break could not be sustained, as the dollar rally eased during the US trading session.** Cable closed the session at 1.5056, even slightly higher from Friday's close at 1.5036. EUR/GBP initially hovered sideways in the mid-0.70 area, but lost some ground as cable rebounded after the rejected test of the 1.50 barrier. EUR/GBP closed the day at 0.7018 (from 0.7046).

Today, markets will look for the UK manufacturing PMI. A setback from 55.5 to 53.6 in November is expected after last month's surprise rebound. We see downside risks to the consensus. The BoE will also publish the results of the stress tests and the financial stability assessment. BoE's Carney will give a press conference. The financial stability report won't be of major importance for sterling trading. A poor PMI might be slightly negative for sterling. On the other hand, we look out whether the 1.50 support holds in cable.

Looking at the broader picture, the soft ECB stance pushed EUR/GBP lower in the longstanding sideways range. The pair cleared the 0.7196 support after the October FOMC meeting. We maintain a sell-on-upticks approach for EUR/GBP as euro weakness prevails. Next key support is this year's low at 0.6936. The correction low at 0.6982 has become an interim support.



Calendar

| Tuesday, 1 December | | Consensus | Previous |
|---------------------|---|-----------------|--------------|
| US | | | |
| | Wards Domestic Vehicle Sales (Nov) | 14.30m | 14.14m |
| | Wards Total Vehicle Sales (Nov) | 18.10m | 18.12m |
| 15:45 | Markit US Manufacturing PMI (Nov F) | 52.6 | 52.6 |
| 16:00 | Construction Spending MoM (Oct) | 0.6% | 0.6% |
| 16:00 | ISM Manufacturing (Nov) | 50.5 | 50.1 |
| Canada | | | |
| 14:30 | GDP MoM/YoY (Sep) | 0.0%/0.4% | 0.1%/0.9% |
| 14:30 | Quarterly GDP Annualized (3Q) | 2.3% | -0.5% |
| Japan | | | |
| 00:50 | Capital Spending YoY (3Q) | A: 11.2% | 5.6% |
| 00:50 | Capital Spending Ex Software (3Q) | A: 11.7% | 6.6% |
| 00:50 | Company Profits (3Q) | A: 9.0% | 23.8% |
| 00:50 | Company Sales (3Q) | A: 0.1% | 1.1% |
| 02:35 | Nikkei Japan PMI Mfg (Nov F) | A: 52.6 | 52.8 |
| 06:00 | Vehicle Sales YoY (Nov) | A: 0.3% | 0.2% |
| China | | | |
| 02:00 | Manufacturing PMI (Nov) | A: 49.6 | 49.8 |
| 02:00 | Non-manufacturing PMI (Nov) | A: 53.6 | 53.1 |
| 02:45 | Caixin China PMI Mfg (Nov) | A: 48.6 | 48.3 |
| UK | | | |
| 10:30 | Markit UK PMI Manufacturing SA (Nov) | 53.6 | 55.5 |
| EMU | | | |
| 10:00 | Markit Eurozone Manufacturing PMI (Nov F) | 52.8 | 52.8 |
| 11:00 | Unemployment Rate (Oct) | 10.8% | 10.8% |
| Germany | | | |
| 09:55 | Unemployment Change (000's) (Nov) | -5k | -5k |
| 09:55 | Unemployment Claims Rate SA (Nov) | 6.4% | 6.4% |
| 09:55 | Markit/BME Germany Manufacturing PMI (Nov F) | 52.6 | 52.6 |
| France | | | |
| 09:50 | Markit France Manufacturing PMI (Nov F) | 50.8 | 50.8 |
| Italy | | | |
| 09:45 | Markit/ADACI Italy Manufacturing PMI (Nov) | 54.2 | 54.1 |
| 10:00 | Unemployment Rate (Oct P) | 11.7% | 11.8% |
| 11:00 | GDP WDA QoQ/YoY (3Q F) | 0.2%/0.9% | 0.2%/0.9% |
| Belgium | | | |
| 11:00 | Unemployment Rate (Oct) | -- | 8.7% |
| Events | | | |
| 08:00 | UK - BOE Financial Stability Report, Bank Stress-Test Results | | |
| 10:00 | UK - Bank of England Governor Mark Carney holds press conference | | |
| 18:45 | US - Fed's Evans Speaks on Economy and Policy in East Lansing | | |

| 10-year | td | -1d | 2-year | td | -1d | STOCKS | | -1d |
|---------|------|------|--------|-------|------|------------|----------------|----------|
| US | 2,23 | 0,00 | US | 0,95 | 0,02 | DOW | 17720 | 17719,92 |
| DE | 0,49 | 0,03 | DE | -0,41 | 0,00 | NASDAQ | for Exch - NQI | #VALUE! |
| BE | 0,80 | 0,04 | BE | -0,32 | 0,01 | NIKKEI | 20012 | 20012,40 |
| UK | 1,83 | 0,01 | UK | 0,60 | 0,02 | DAX | 11382,23 | 11382,23 |
| JP | 0,30 | 0,00 | JP | 0,00 | 0,00 | DJ euro-50 | 3506 | 3506,45 |

| IRS | EUR | USD (3M) | GBP | EUR | -1d | -2d | USD | td | -1d |
|-----|--------|----------|-------|-----------|-------|------|-------------|--------|-------|
| 3y | -0,067 | 1,228 | 1,110 | Euribor-1 | -0,16 | 0,00 | Eonia EUR | -0,127 | 0,011 |
| 5y | 0,169 | 1,562 | 1,398 | Euribor-3 | -0,11 | 0,00 | Libor-1 USD | 0,50 | 0,50 |
| 10y | 0,841 | 2,058 | 1,834 | Euribor-6 | -0,04 | 0,00 | Libor-3 USD | 0,57 | 0,57 |
| | | | | | | | Libor-6 USD | 0,73 | 0,73 |

| Currencies | | -1d | Currencies | | -1d | Commodity | CRB | GOLD | BRENT |
|------------|---------|---------|------------|--------|---------|-----------|----------|--------|-------|
| EUR/USD | 1,0589 | 0,0008 | EUR/JPY | 130,09 | 0,20 | | 183,2406 | 1071,4 | 44,89 |
| USD/JPY | 122,885 | 0,09 | EUR/GBP | 0,701 | -0,0029 | -1d | -2,46 | 15,94 | 0,18 |
| GBP/USD | 1,5099 | 0,0074 | EUR/CHF | 1,0865 | -0,0047 | | | | |
| AUD/USD | 0,7262 | 0,0075 | EUR/SEK | 9,206 | -0,05 | | | | |
| USD/CAD | 1,3344 | -0,0039 | EUR/NOK | 9,1538 | -0,06 | | | | |

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