



Sunrise

Tuesday, 06 October 2015

Core bonds erased post-payrolls gains as risk-on dominates-

The remarkable turnaround of equities after the payrolls set the stage for a second leg up yesterday, weighing on core bonds. Today, only the US trade balance will be released and some central bankers may spice trading, even as most speak after the European close. This leaves equities as the main driver for bonds. Equity rally seems to lose strength.

Slowdown post NFP USD rally?

Yesterday, the dollar profited slightly as the post-NFP equity rally continued. If this rally slows, the topside in the dollar might also become more difficult. A big US trade deficit might be a USD-negative too. The Aussie dollar regains the AUD/USD 71 level as the RBA gives a neutral statement after its policy decision.

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** closed a bull-day with strong gains, indices noting profits between 2.5%-3.5%, as risk-on dominated. **US equities** also kept increasing after a good opening, with investors seeing a rate hike still miles away.
- **Asian equities** are currently trading in the green, with the Nikkei recovering from one of its worst weeks last week. The Chinese market remain closed due to holidays.
- **Germany's August factory orders were well below the expectations**, declining by 1.8% M/M in August. Additionally, there was a drastic downward revision for last month's orders, from -1.4% M/M to -2.2% M/M. This might raise fears of growth slowdown in EMU's motor.
- **The Trans-Pacific-Partnership (TPP) has been signed.** The largest trade agreement that has been settled in last two decades, creating a new economic bridge between US and 12 Pacific Rim countries. **TPP remains open for China to join in the future.**
- **The Reserve Bank of Australia maintained its benchmark interest rate at 2%, a historic low.** Further adjusting the Aussie dollar to significant declines in key commodities and further depreciation seems likely/necessary.
- **Today, the eco-calendar contains the US Trade Balance for August. US Federal reserve's governors George & Williams will speak as will ECB's president Mario Draghi**

Rates

Core bonds erase post-payrolls gains

Core bonds lost further ground erasing all of the post payrolls gains.

Curves bear steepen

	US yield	-1d
2	0,6011	0,0237
5	1,3343	0,0502
10	2,0421	0,0580
30	2,8843	0,0615

	DE yield	-1d
2	-0,2560	0,0100
5	-0,0270	0,0180
10	0,5660	0,0470
30	1,3330	0,0760

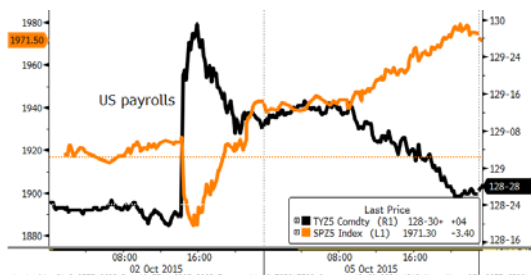
Global core bonds erased more post-payrolls gains yesterday, as risk sentiment was very positive. US supply (end of month refinancing operation starts tomorrow) was an additional negative for US Treasuries. The eco data (services PMI's in EMU, UK and US) were somewhat weaker than expected, but were blown away by the improving risk sentiment. Commodities couldn't match the equity performance and gains weren't convincing. **Technically, both the German Bund (152.75-156.84) and the US Note future (126-16 – 129-10+) fell back within their sideways ranges following Friday's post-payrolls break higher.** We won't draw final conclusions yet and consider the test still ongoing. Both the **US and German yield curves bear steepened.** US yields increased by 2.6 bps (2-yr) to 6.9 bps (30-yr) while German yield changes ranged between 0.7 bps (2-yr) and +9.1 bps (30-yr). On **intra-EMU bond markets**, 10-yr yield spreads versus Germany narrowed up to 3 bps for the periphery (Greece -19 bps). There was no specific outperformance from **Spain** following Friday's unexpected rating upgrade by S&P. **Portuguese election**, which resulted in a minority government for PM Passos Coelho, didn't leave traces either.

Eco calendar less enticing: US trade & German orders

The **US trade balance** is expected to show a widening in the deficit from -\$41.86B to -\$48.00B. A sizeable drop in exports of goods is expected, partly due to a decline in oil prices, partly due to the stronger dollar. Given signals of slower growth, attention for the trade balance might be bigger than usual and so also the reaction on a consensus miss. **Also on the agenda today is a speech by ECB president Mario Draghi** in Frankfurt and speeches by Fed Williams and Fed George during US dealings. Williams talked recently, but we hope he'll give his opinion on the payrolls. Fed George is a hawkish governor and we look out whether she'll stick to that line given EM turmoil and disappointing payrolls. Any deviation to the dovish side would be market-moving. ECB Draghi will likely echo his recent soft comments.

US trade: Traces of global growth slowdown?

ECB Draghi and Fed Williams & George speak



S&P future (orange) & T-Note future (black (2 days)). S&P regains more ground, US Treasuries erase all post-payrolls gains



Nice post-payrolls rally, but now the heavy lifting may start with first support around 2000, next at 2040.

R2	160,62	-1d
R1	157,67	
BUND	156,44	0,0000
S1	153,5	
S2	152,75	

Austria taps market; US starts end-of-month refinancing

The Austrian debt agency taps the off the run RAGB (1.75% Oct2023) and the on the run 10-yr RAGB (1.2% Oct2025) for a combined €1.3B. An additional 10% of the allotted volume will be set aside as a quota for the Bund. In the run-up to the auction, the bonds on offer traded stable in ASW-spread terms and they are normal on the Austrian yield curve. We expect a plain vanilla auction. **Later this week, Germany (tomorrow) and Ireland (Thursday) complete this week's scheduled EMU bond issuance.** This week's auctions will be supported by a €16B Bobl redemption. The US Treasury starts its end-of-month refinancing operation with a \$24B 3-yr Note auction. Currently, the W1 trades around 0.89%. The auction will be followed by a \$21B 10-yr Note auction tomorrow and a \$13B 30-yr Bond auction on Thursday.

Today: More equity watching

Overnight, Asian stocks markets trade around 1% higher with Japan outperforming (+1.5%) and China still closed. All in all, gains are rather small given the stellar performance of Europe and the US yesterday. The RBA kept policy rates unchanged at 2%. The US Note future trades marginally higher.

Today's eco calendar is thin with only the US trade balance. Normally, that's no market mover, but given current global growth slowdown fears it could grab some more attention. **US supply is marginally negative for US Treasuries, but we think that sentiment on equity markets will be the key driver for markets.** After European closure, speeches by ECB Draghi and SF Fed Williams are wildcards.

After the dovish September FOMC meeting, we eyed a return to the contract high for the US Note future (129-10+), but we didn't anticipate a break higher. **That last assumption was under severe pressure after disappointing payrolls, but ultimately it is back in the range as is the Bund.** 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 and 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.



German Bund: Test upper bound ongoing. In yield terms 0.47% is key support (currently 0.56%).



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

Currencies

R2	1,1714	-1d
R1	1,146	
EUR/USD	1,11835	-0,0055
S1	1,1087	
S2	1,1017	

Dollar profits from post-NFP equity rally

On Monday, EUR/USD and USD/JPY searched a new trading theme in the wake of Friday's poor US payrolls. However, there was no clear story to guide trading. The dollar remained well bid as risk sentiment remains constructive. The US Non-manufacturing ISM was slightly below consensus, but didn't hurt the positive intraday momentum of the US currency. EUR/USD closed the session at 1.1188 from 1.1216 on Friday. USD/JPY ended the session at 120.46 (from 119.91)

Dollar profits from risk-on trade

EUR/USD drops below the 1.12 big figure

Aussie regains 0.71 level after neutral RBA statement

Overnight, Asian equities show moderate gains with Japan outperforming. However, the gains are much smaller than those in the US and in Europe yesterday. USD/JPY is holding an extremely tight range in the mid 120 area. EUR/USD trades in the 1.1175/80 area, near the post-payroll lows. The Reserve Bank of Australia left its policy rate unchanged at 2.0%, as expected and its statement was neutral. The RBA expects the economy to operate with a degree of spare capacity for some time. So, monetary policy needs to be accommodative. The Bank sees the AUD adjusting to the significant declines in the key commodity prices. **The neutral tone of the statement suggests that no rate cut is imminent. This helps the AUD to rebound above the 0.71 mark.**

Today, the calendar in Europe is almost empty. **In the US, the trade balance will be published.** Of late, the reaction of the dollar to the US trade data was very muted, but now it may become more important. A substantial rise in the deficit is expected. This suggests that net exports will be a drag on Q3 growth, with repercussion on the Fed's rate debate and on the USD strength. **We have no strong arguments to take distance from the consensus. Even so, the report might generate some USD negative headlines.** Aside from the US trade data, currency traders will look for guidance to the global equity sentiment. On Friday evening and yesterday, the dollar profited from a positive equity sentiment. This morning, the price action in Asia suggests that the global equity rally might shift into a lower gear. **If so, it might also slow the rally of the dollar.** The 1.1105/1.1087 support area is still some way off, but we assume that further USD gains might become more difficult in the absence of additional USD positive news.

Dollar to be influenced by US trade balance and equities

Equity-driven USD rebound to slow?



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



AUD/USD: Aussie dollar extends cautious rebound after RBA decision

In a long term perspective, EUR/USD and USD/JPY might see more range trading. A Fed rate hike will 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.

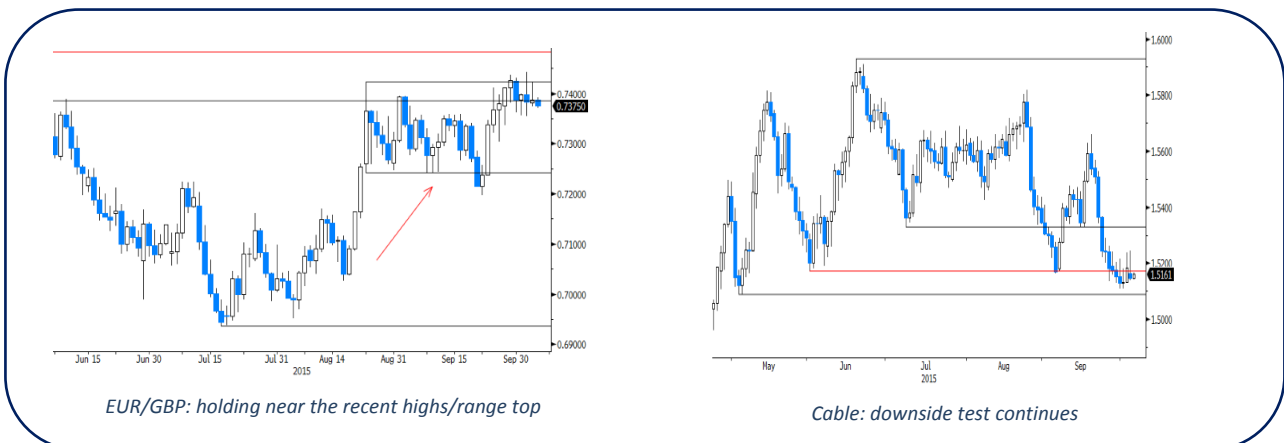
From technical point of view, the global picture for the dollar (EUR/USD) hasn't changed. The dollar rebound ran into resistance just north of the EUR/USD 1.1087 support. but for now EUR/USD is holding the established sideways consolidation pattern. **1.1087/1.1017 is a solid bottom. 1.1460 is a first 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, EUR/USD may return toward the topside of this range.**

Sterling holding tight ranges

On Monday, trading in sterling took a slow start for the new week. EUR/GBP hovered sideways in the high 0.73 area going in to the publication of the UK services PMI. **Confidence in the UK services sector was much weaker than expected. The headline index dropped from 55.6 to 55.3. A rebound to 56.00 was expected.** It weighed on sterling, but the sterling losses remained moderate, given the 'big miss' of the report. **Later in the session, dollar strength again prevailed as a factor for sterling trading. Cable dropped off the intraday top in the 1.5240/45 area to end the session at 1.5146 (1.5185 on Friday). The decline of EUR/USD pushed also EUR/GBP below the 0.74 barrier. The pair closed the session at 0.7387 hardly changed from the 0.7382 close on Friday. So, the damage from the poor UK PMI was limited.**

Today, UK eco calendar is nearly empty. So, sterling trading will be at the mercy of global market sentiment. We assume that the post-NFP equity rally runs gradually into resistance. **That may slow the rebound of the dollar and make the downside in EUR/GBP more difficult.** In a day-to-day perspective, it might be difficult for EUR/GBP to stay below the 0.74 barrier. Event risk might still come from the conference of the conservative party. Markets will also look forward to the BoE policy assessment to be published on Thursday. Will the BOE soften its tone after recent developments in the UK and worldwide? **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 technical picture, which is not our preferred scenario. Even so, partial stop-loss protection on EUR/GBP shorts can still be considered.

R2	0,7483	-1d
R1	0,7443	
EUR/GBP	0,7376	-0,0012
S1	0,7196	
S2	0,715	



Calendar

Tuesday, 6 October		Consensus	Previous
US			
14:30	Trade Balance (Aug)	-\$47.10b	-\$41.86b
16:00	IBD/TIPP Economic Optimism (Oct)	44.5	42.0
Canada			
14:30	Int'l Merchandise Trade (Aug)	-1.07b	-0.59b
16:00	Ivey Purchasing Managers Index SA (Sep)	54	58.0
UK			
10:00	New Car Registrations YoY (Sep)	--	9.6%
EMU			
10:10	Markit Eurozone Retail PMI (Sep)	--	51.4
Germany			
08:00	Factory Orders MoM (Aug)	0.5%	-1.4%
08:00	Factory Orders WDA YoY (Aug)	5.6%	-0.6%
Australia			
05:30	RBA Cash Rate Target	A: 2.00%	2.00%
Spain			
09:00	House transactions YoY (Aug)	--	13.9%
Events			
11:10	Austria - Eur 1.43bn; 1.2% Oct 2025, 1.75% Oct 2023 RAGBs		
11:30	UK - Gbp 1.5bn 4.5% Sep 2034 Gilt		
15:15	US - Fed's George Keynote speaks at event in Chicago		
19:00	US - Usd 24bn 3-year note auction		
19:00	EMU - ECB's Draghi Speaks in Frankfurt		
23:30	US - Fed's Williams Gives Outlook Speech in San Francisco		

10-year	td	-1d	2-year	td	-1d	STOCKS		-1d
US	2,04	0,06	US	0,60	0,02	DOW	16776	16776,43
DE	0,57	0,05	DE	-0,26	0,01	NASDAQ	for Exch - NQI	#VALUE!
BE	0,89	0,06	BE	-0,19	0,00	NIKKEI	18171	18170,60
UK	1,79	0,09	UK	0,55	0,02	DAX	9814,79	9814,79
JP	0,33	0,01	JP	0,00	0,00	DJ euro-50	3190	3190,39

							USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,144	-0,005
3y	0,107	0,960	1,107	Euribor-1	-0,11	0,00	Libor-1 USD	0,51	0,51
5y	0,335	1,374	1,412	Euribor-3	-0,04	0,00	Libor-3 USD	0,58	0,58
10y	0,948	2,014	1,838	Euribor-6	0,03	0,00	Libor-6 USD	0,75	0,75

Currencies		-1d	Currencies		-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,11835	-0,0055	EUR/JPY	134,68	-0,20		194,1059	1136	49,43
USD/JPY	120,435	0,41	EUR/GBP	0,7376	-0,0012	-1d	0,00	1,50	0,99
GBP/USD	1,5157	-0,0054	EUR/CHF	1,0914	0,0004				
AUD/USD	0,7123	0,0052	EUR/SEK	9,3141	-0,07				
USD/CAD	1,3067	-0,0062	EUR/NOK	9,3854	0,00				

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)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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