Sunset

Friday, 02 December 2016

Headlines

- **European stock markets** lose 0.5% to 1%, catching up with the US and Asia. **US equity markets** open nearly unchanged, in line with major currency and rate markets following mixed payrolls.
- **November US payrolls printed very close to expectations** at 178k (vs 180k expected). The previous two month's figure went through a marginal downward revision (-2k). **The unemployment rate surprisingly fell** from 4.9% to 4.6%, the lowest level since 2007, but **average hourly earnings disappointed** (-0.1% M/M, 2.5% J/J).
- **Construction activity in the U.K. grew at the fastest pace in eight months in November,** but companies warned that rising costs are squeezing their profit margins. IHS Markit said its headline construction PMI rose to 52.8 from 52.6 in October. That's the highest since March, though it's still below the average of the past two years.
- The **Trump transition team** is examining **proposals for US sanctions on Iran separate from its nuclear programme** in a move likely to draw a furious reaction from Tehran. They could include measures that focus on Iran's ballistic missile programme or its human rights record, say congressional sources.
- **Turkish President Erdogan renewed calls for lower interest rates** to spur investments, and called on Turks to stop hoarding dollars and to support the lira. The Turkish currency sank to a record low with **EUR/TRY hitting the 3.80 mark.**
- **BoE chief economist Haldane said it would be risky to raise interest rates too hastily** and that he was comfortable with the BoE's recently adopted neutral stance on the future direction of monetary policy.
- **This weekend Austrians and Italians go to the polling booth.** The replay of the second round of the Austrian presidential election will be a toss-up between the far left and far right candidate. Italian PM Renzi tide his faith to a referendum on Senate reform and will likely lose the vote which could topple Italy in a new political crisis.

Rates

US Note future (intraday, this week): payrolls pass unnoticed

Hardly short covering on core bond markets

Global core bonds corrected slightly higher in an uneventful pre-weekend trading session. November US payrolls failed to deliver fireworks. Equity markets lost some ground, but the oil price remained upwardly oriented, sending mixed signals. The headline payroll number missed consensus by a whisker (178k vs 180k) while the previous two month's figures felt prey to a marginal 2k downward revision. The unemployment rate unexpectedly declined from 4.9% to 4.6%, the lowest level since 2007 and probably hitting the Fed's NAIRU. With the job market in balance, Fed rate hikes will follow starting on December 14. Average hourly earnings disappointed though at -0.1% M/M and 2.5% Y/Y (from 2.8% Y/Y in October). **The US Treasury market reacted very indifferent to the payrolls report. Overall, we conclude that core bond markets**

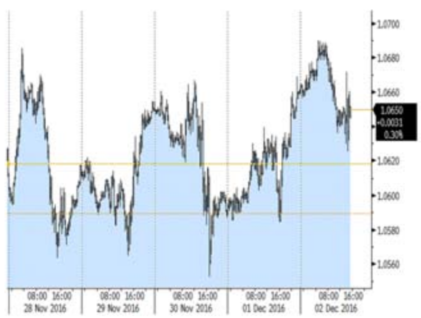
fell prey to very limited short covering ahead of the weekend. The very small upward rebound following a huge sell-off suggests that core bond markets remain fragile and that the downside isn't exhausted yet.

At the time of writing, changes on the US yield curve range between -2.3 bps (2-yr) and -4.3 bps (5-yr) with the key resistance levels in the US 5-yr and 10-yr yields successfully fending off this week's test of respectively 1.85%-area and 2.5%. Changes on the German yield curve vary between +0.8 bps (2-yr) and -4.3 bps (30-yr). On intra-EMU bond markets, 10-yr yield spreads versus Germany narrow up to 2 bps with Italy outperforming (-4 bps) despite this weekend's referendum on Senate reform which risks creating political chaos as Renzi tied his faith to the outcome.

Currencies

USD going nowhere on mixed payrolls

Today, the focus of global (currency) markets was on the US payrolls report. The dollar traded off the recent highs going into the release as risk sentiment turned slightly risk-off. The payrolls were too close to expectations to inspire any directional USD move. EUR/USD is changing hands in the 1.0650 area. USD/JPY hovers around 113.70.



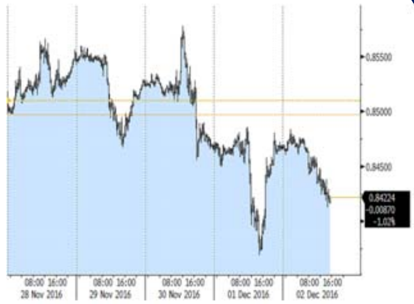
EUR/USD: drifting sideways. Payrolls fail to give guidance

Overnight, the setback of US tech shares filtered into Asian markets which recorded losses of 0.5% to 1.0%+. The global reflation trade is easing. Oil declined slightly after the exuberant OPEC rally. The yen profited only slightly from the risk-off sentiment. USD/JPY held close to the 114-mark. The losses of the dollar against the euro is more pronounced, despite uncertainty on the Italian referendum. EUR/USD tested the ST correction top in the 1.0685/90 area.

European equities joined the correction from Asia this morning. Interest rates and interest rate differentials between the US and Europe basically stabilised. The picture of the dollar was mixed. EUR/USD again failed to break beyond the recent highs in the 1.0685/90 area. In technical trade, the pair drifted back to the mid 1.06 area. USD/JPY settled in a sideways trading pattern mostly in the upper part of the 113 big figure. So, the damage from the equity market correction on USD/JPY remained limited. The high level of USD interest rates still puts a good floor for USD/JPY.

The US payrolls report failed to give any clear guidance for USD trading. Job growth was as expected. The unemployment rate unexpectedly declined to 4.6%, the lowest level since 2007. On the other hand, wage growth disappointed (2.5% Y/Y vs 2.8% Y/Y expected). The dollar lost temporary a few ticks after the publication of the payrolls, but the report was not able to trigger a clear directional move. EUR/USD trades in the 1.0650 area. USD/JPY trades with a slight negative bias, currently around 113.70.

Sterling holds strong in calm trading



EUR/GBP: sterling holds strong

This morning, **sterling trading was in the first driven by technical considerations.** Cable hovered sideways in the lower half of the 1.26 big figure. EUR/GBP declined gradually, but the move in the first place copied the gradual decline of EUR/USD at that time. The UK construction PMI was marginally stronger than expected at 52.8 (from 52.6). BoE's chief economist Haldane maintained a neutral policy stance, but warned that the BoE shouldn't tighten policy too hastily. Both factors were no big issue for sterling trading. EUR/GBP drifted gradually south after yesterday's late session rebound. The payrolls also didn't cause much animo in the major sterling cross rates. EUR/GBP trades currently in the 0.8420 area. Cable is changing hands around 1.2650. **So, the price swings in sterling were modest compared to the previous days, but the UK currency still shows underlying resilience.**

16:00 CET

Daily EMU spread changes (bps)

	5-yr			10-yr			30-yr		
	Yield	Spread	Change	Yield	Spread	Change	Yield	Spread	Change
Germany	-0,41%			0,31%			0,98%		
Greece	#VALUE!	#VALUE!	#VALUE!	6,49%	618	4,5	#VALUE!	#VALUE!	#VALUE!
Portugal	2,24%	265	-4,7	3,70%	339	-0,2	4,58%	361	0,5
Italy	0,87%	128	-4,1	1,95%	165	-3,3	3,05%	207	-0,8
Spain	0,49%	89	-2,3	1,55%	125	0,2	2,80%	182	1,7
Ireland	#VALUE!	#VALUE!	#VALUE!	0,87%	56	-1,4	1,77%	79	-0,9
Belgium	-0,30%	11	-0,6	0,65%	35	0,1	1,59%	62	0,2
France	-0,05%	36	-1,0	0,76%	45	0,1	1,60%	62	0,5
Austria	-0,27%	13	-1,8	0,54%	24	-1,5	1,37%	39	-1,8
Netherlands	-0,27%	14	-1,5	0,45%	15	-1,3	1,05%	7	-1,3
Finland	-0,34%	7	-1,4	0,47%	16	-1,1	1,05%	7	-1,7
US	1,84%	225	-3,5	2,40%	209	1,5	3,07%	209	2,6
UK	0,59%	100	-4,3	1,41%	110	-2,7	2,05%	107	-1,1

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