Sunrise

Thursday, 07 December 2017

Rates: Testing times for German 10-yr yield

The German 10-yr yield closed just above key support in the 0.3% area yesterday. A break lower would suggest a return to the downside of this year's sideways trading channel (0.2%). Rumours about increased focus on long tenors (30y and even 50y) in next year's German funding plan could avert a break.

Currencies: USD extends cautious rebound

The dollar held up well yesterday even as risk sentiment was negative for most of the day. The trade weighted dollar even extends an, albeit very gradual, comeback. The jury is still out, but at least the USD downside looks better protected. Tomorrow's US payrolls hold the key on a next directional move. Or will US politics spoil the game.

Calendar

Headlines

S&P	→
Eurostoxx 50	→
Nikkei	↑
Oil	↓
CRB	↓
Gold	→
2 yr US	→
10 yr US	→
2yr DE	→
10 yr DE	↘
EUR/USD	→
USD/JPY	→
EUR/GBP	→

- **US stock markets murmured around opening levels** to close mixed between -0.2% (Dow) and 0.2% (Nasdaq). Asian equity indices trade mixed overnight with **a significant outperformance of Japan.**
- **The BoC kept policy rates on hold yesterday** at its last interest rate decision of 2017 and reiterated it will be "cautious" with future moves, indicating it's in no rush to cool an economy that is very close to capacity.
- A European Parliament resolution drafted on Monday shows **British PM May has secured agreement from Brussels that British citizens in the EU** will be able to live freely in any member state after Brexit, according to Reuters.
- **BoJ Governor Kuroda** stressed the need to look at the impact monetary policy has on the banking system and said changes in the economy could trigger a hike in the bank's yield targets, offering **the strongest signal to date it may edge away from its crisis-mode stimulus programme.**
- **China should prioritise financial stability above development goals,** as pursuit of regional growth targets and helping firms avoid heavy job losses had led to a surge in debt, particularly at local government level, **the IMF** said.
- **Policymakers at the Brazilian central bank cut the benchmark Selic rate by 50 bps to a historic low of 7%** as inflation continues to drop while the economy inches forward from a brutal recession.
- **Today's eco calendar** contains the final Q3 EMU GDP number and US weekly jobless claims. ECB Draghi speaks in his capacity as chair of the GHOS. Spain and France supply the EMU bond market.

Rates

German 10-yr yield closes just above key support

US yield		-1d
2	1,81	-0,01
5	2,13	-0,02
10	2,34	-0,01
30	2,73	0,00

Global core bonds traded mixed yesterday with the US Note future slightly outperforming the German Bund. The Bund opened higher in a catch-up move, but traded sideways afterwards while the US Note future extended gains. Following Tuesday's industrialized materials sell-off, another, but different commodity took a hit. Oil prices corrected significantly with Brent crude dropping $2/barrel to $61/barrel. European equity moves were limited to the ones recorded in the opening and US stocks murmured around opening levels. So risk sentiment turned neutral following risk aversion in Asia. The eco calendar added little spirit to trading with US ADP employment bang in line with forecasts at a strong 190k.

German 10-yr yield closes just above key support

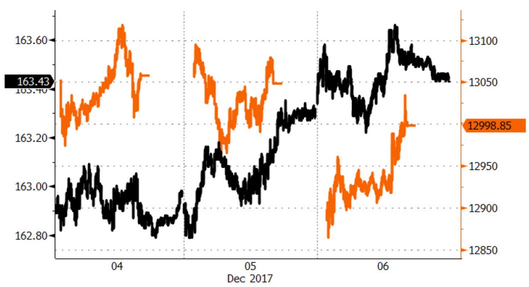
In a daily perspective, the German yield curve shifted 2.5 bps lower across the curve with the front end underperforming (2-yr: -1.7 bps). The German 10-yr yield closed just above key support (0.295% vs 0.292%). US yields shed 0.2 bps to 1.7 bps with the belly of the curve outperforming the wings. On intra-EMU bond markets, 10-yr yield spread changes versus Germany widened up to 2 bps with Spain and Italy underperforming (+5 bps).

Uneventful eco calendar

Today's eco calendar only contains second tier eco data who have no market moving potential. The final EMU Q3 GDP number (0.6% Q/Q) and US weekly jobless claims are up for release. The latter is expected to stabilize around 240k, confirming the health of the US labour market. ECB Draghi participates in panel, but in his capacity as Chair of the Group of Governors and Heads of Supervision so he probably won't touch on monetary policy.

DE yield		-1d
2	-0,75	-0,02
5	-0,38	-0,03
10	0,30	-0,03
30	1,13	-0,03

The French debt agency holds a very small OAT auction, probably to complete this year's funding. They tap three off the run OAT's for €3-4 bn: 0.25% Nov2026, 5.5% Apr2029 and 1.75% Jun2039. **The Spanish treasury** intends to raise €3-4 bn by tapping the on the run 5-yr Bono (0.45% Oct2022, 1.45% Oct2027 and off the run Obligacion 4.7% Jul2041. We expect these auctions to go well.



German Bund (black) & Dax (orange) intraday this week: slight risk-off induced gains

German 10-yr yield closes just above key support. A move below 0.292% suggests a return to the downside of the sideways channel

Equity/commodity sentiment, US politics and supply

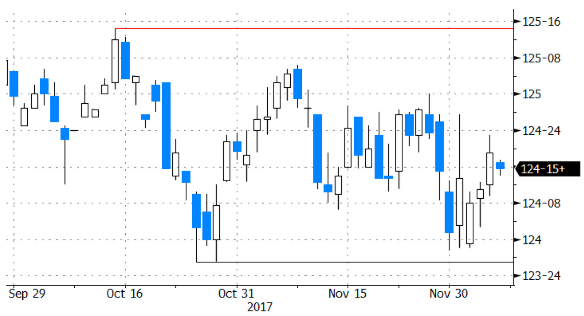
R2	165,18	-1d
R1	163,67	
BUND	163,41	0,36
S1	161,49	
S2	159,78	

Risk sentiment is mixed in Asia this morning with Japan outperforming. The US Note future and Brent crude also suggest a neutral opening for the Bund. **Nevertheless, we expect that some weakness is possible as Boersen-Zeitung reported that German deputy FM Spahn said that the government "sometimes considers 50-yr Bonds" and that it will "focus refinancing on 30-yr Bonds". The article could trigger some steepening off the German curve with the 10-yr yield bouncing off the 0.3% support area.**

The eco calendar has no market-moving potential today. Risk sentiment of equity/commodity markets and US political uncertainty could be the other main drivers and result in some cautiousness. US Treasuries might outperform Bunds with tomorrow's payrolls and next week's Fed meeting in mind. **The front end of the US yield curve (short future in oversold conditions), discounts already two rate hikes for 2018 and could be prone to some last minute profit taking.** We expect the new dot plot to show the Fed's determination to hike rates 3 times next year. **Rate markets are for the first time in the current tightening cycle (rapidly) catching up with FOMC forecasts.**

Technically, US Treasuries will probably trade in the 123-27 to 125-14+ range going forward (March 2018 contract!). This corresponds with a 2.3%-2.47% band in yield terms. The **German Bund** set a new contract high, but this wasn't confirmed by a drop of the German 10-yr yield below 0.3%. **We don't anticipate such move and suggest putting short positions around current levels. Strong current and expected growth and the ECB's slow normalisation process warrant such move.**

German Bund (March contract!): New contract high, but break needs to be confirmed with move of German 10y yield below 0.3%. We don't expect that to happen.



US Note future (March contract!): sideways ahead of key Fed meeting next week. How will the 2018 dot plot look like?!

Currencies

Dollar maintains cautious gains

Dollar succeeds modest further rebound despite risk-off sentiment

Asian markets were captured by a global risk-off correction yesterday. However, the spill-overs to the interest rate and FX markets were modest. The dollar held up well despite the decline in core/US yields. Risk sentiment improved slightly in US trading and lifted USD/JPY a bit further off the intraday lows. The pair closed at 112.29 (from 112.60). EUR/US finished at 1.1796 (from 1.1826).

Global equity correction slows, but Asian stocks still show a mixed picture

USD gains remain far from impressive, but downside looks better protected

Asian equities still show a diffuse picture overnight. Japan outperforms with gains of 1% +. China and Korea underperform. **The profit taking move of the previous sessions slows, but there is no big story to start a clear directional move/rebound.** USD/JPY trades in the mid 112 area. The pair lost only limited ground in yesterday's risk-off correction. BoJ governor Kuroda in a speech said that the shape of the yield curve could change depending on the economy, inflation or factors in the financial system. There was no market reaction. EUR/USD stabilizes in the 1.18 area. **At 93.60, the trade-weighted dollar (DXY) holds near the highest level in 2 weeks.** The **Aussie dollar** lost further ground as the trade surplus narrowed much more than expected in October. AUD/USD reversed its recent rebound and trades again in the mid 0.75 area.

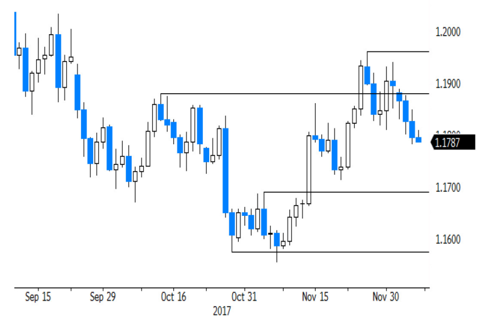
R2	1,2225	-1d
R1	1,2092	
EUR/USD	1,1796	-0,0030
S1	1,1554	
S2	1,1331	

Global sentiment will continue to drive USD trading

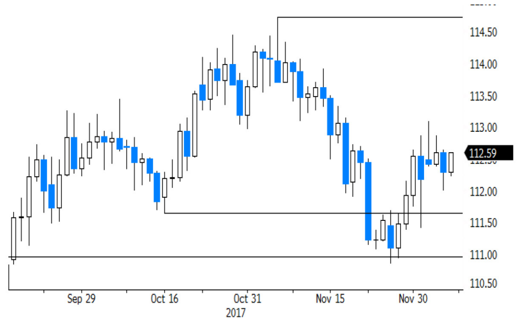
US political topics are a wildcard

There are **only second tier eco data in the EMU and the US today.** The details of the final EMU Q3 GDP are interesting but outdated and no market movers. This also applies for production data from EMU countries. **US jobless claims** are expected to stabilize at 240k. Markets will count down to tomorrow's payrolls. Investors will also keep an eye on the US tax bill debate and look out whether the US can avoid a partial government shut-down. Markets are not really worried on this issue.

Earlier this week, there were tentative signs that the dollar was receiving support from the protracted rise in ST US yields (2-y US yield rising above 1.8%). Markets are gradually moving in the direction of the Fed guidance (dot-plot). **For now, it didn't help the dollar that much, but maybe it helped to provide a floor for the US currency as USD shorts are becoming expensive.** This process might be aborted if global markets fall prey to an outright risk-off correction or if tomorrow's payrolls would disappoint. Even so, we have the impression that the topside in EUR/USD is becoming tougher. **EUR/USD might stay below the 1.1961/1.20 area ahead of next week's Fed meeting, unless there comes high profile negative news from the US.**



EUR/USD: drifting sideways as USD momentum improves



USD/JPY: rally slows. Technical picture turned neutral again

The day-to-day USD momentum is not too bad. Of late USD/JPY was quite sensitive to interest rates/differentials rather than to the gyrations in equity markets. Even so, the pair remains more vulnerable in case of risk-off.

From a technical point of view: EUR/USD set a post-ECB low mid-November, but the dollar momentum wasn't strong enough. EUR/USD settled in a directionless sideways consolidation pattern in the 1.18/19 area. A return below 1.1713 would signal that the rebound in EUR/USD is aborted. **For now, there is no clear technical signal. USD/JPY's momentum** deteriorated early November, dropping below the 111.65 neckline. No aggressive follow-through selling occurred though. Last week the pair succeeded a nice rebound, calling off the downside alert. **The pair hovers again in the 110.84/114.73 consolidation range. We amended our ST bias from negative to neutral.**

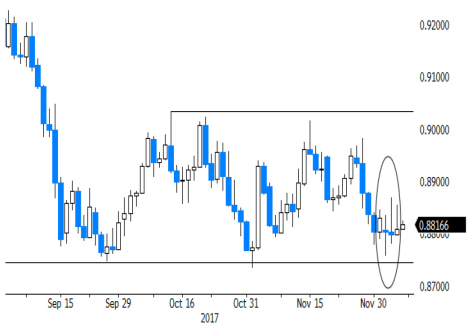
Binary Brexit risk paralyses sterling trading

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8808	0,0011
S1	0,8743	
S2	0,8657	

There were again plenty of headlines on Brexit and on UK politics yesterday. They brought little evidence that a deal could be reached anytime soon. However, the impact on sterling trading was modest. **EUR/GBP settled north of 0.88, but no important technical level was broken. The pair closed the session at 0.8808 (from 0.8797).** Cable declined back below the 1.34 barrier, but part of this move was due to cable mirroring the intraday decline of EUR/USD. The pair closed at 1.3393. **So, sterling held up quite well, suggesting that markets still see a decent change of a last minute solution ahead of next week's EU summit**

The UK eco calendar only contains the Halifax house prices today, but this is no market mover. Brexit headlines/rumours will continue to drive GBP trading. UK PM May is said to prepare a new proposal on the issue of the Irish boarder. However, it is far from sure than a solution acceptable for all parties will be found today. So, more directionless trading in the major sterling cross rates might be on the cards. Investors will probably abstain from setting up new directional bets as long as the binary Brexit risk isn't out of the way.

MT view/technical picture: A BoE driven sterling rebound ran into resistance early last month. Sterling declined again as markets anticipated that the rate cycle would be very gradual and limited. EUR/GBP trades in a 0.8733/0.9033 consolidation range. Brexit headlines cause day-to-day gyrations. **We changed our ST bias on EUR/GBP from positive to neutral mid-November.** The 0.9015/33 area might be tough to break short-term. In case of more positive news on Brexit, return action to the 0.8733 (or below) level is possible ST.



EUR/GBP going nowhere as markets await a clear sign from the Brexit debate

GBP/USD: topside test rejected; mostly on USD strength.

Calendar

Thursday, 7 December		Consensus	Previous
US			
13:30	Challenger Job Cuts YoY (Nov)	--	-3.0%
14:30	**Initial Jobless Claims**	**240k**	**238k**
14:30	Continuing Claims	1900k	1957k
UK			
09:30	Halifax House Prices MoM & 3Mths/Year (Nov)	0.2%/3.9%	0.3%/4.5%
EMU			
11:00	Gross Fix Cap QoQ (3Q)	0.7%	0.9%
11:00	Govt Expend QoQ (3Q)	0.3%	0.5%
11:00	Household Cons QoQ (3Q)	0.4%	0.5%
11:00	**GDP SA QoQ / YoY (3Q F)**	**0.6%/2.5%**	**0.6%/2.5%**
Germany			
08:00	Industrial Production SA MoM / WDA YoY (Oct)	A:-1.4%/2.7%	-0.9%/4.1%
Italy			
10:00	Unemployment Rate Quarterly (3Q)	11.2%	11.2%
China			
	Foreign Reserves (Nov)	$3122.0b	$3109.2b
Norway			
08:00	Industrial Production MoM / WDA YoY (Oct)	--/--	-0.5%/12.3%
Spain			
09:00	INE House Price Index QoQ / YoY (3Q)	--/--	2.0%/5.6%
Sweden			
09:30	Household Consumption (MoM) / (YoY) (Oct)	--/--	0.6%/3.5%
Events			
10:30	Spain to Sell 0.45% 2022, 1.45% 2027, 4.7% 2041 and 0.3% I/L Bonds		
10:50	France to Sell 0.25% 2026, 5.5% 2029 and 1.75% 2039 Bonds		
17:00	**Draghi holds conference as GHOS chair in Frankfurt**		

10-year	Close	-1d
US	2,34	-0,01
DE	0,30	-0,03
BE	0,49	-0,01
UK	1,23	-0,03
JP	0,06	0,00

2-year	td	-1d
US	1,81	-0,01
DE	-0,75	-0,02
BE	-0,61	0,01
UK	0,50	0,00
JP	-0,14	0,00

Stocks	Close	-1d
DOW	24140,91	-39,73
NASDAQ	6776,375	14,16
NIKKEI	22498,03	320,99
DAX	12998,85	-49,69
DJ euro-50	3561,57	-9,00

IRS	EUR	USD	GBP
3y	-0,07	2,08	0,93
5y	0,19	2,19	1,08
10y	0,78	2,36	1,32

EUR	-1d	-2d
Eonia	-0,3260	-0,0020
Euribor-1	-0,3670	0,0000
Euribor-3	-0,3260	0,0000
Euribor-6	-0,2710	0,0000

USD	-1d	-2d
Libor-1	1,4032	0,0000
Libor-3	1,5153	0,0000
Libor-6	1,7113	0,0000

Currencies	Close	-1d
EUR/USD	1,1796	-0,0030
USD/JPY	112,29	-0,31
GBP/USD	1,3393	-0,0050
AUD/USD	0,7564	-0,0043
USD/CAD	1,2789	0,0098

Currencies	Close	-1d
EUR/JPY	132,45	-0,71
EUR/GBP	0,8808	0,0011
EUR/CHF	1,1677	0,0001
EUR/SEK	9,9508	0,0742
EUR/NOK	9,7573	-0,0140

Commodities	Close	-1d
CRB	184,72	-2,74
Gold	1266,10	1,20
Brent	61,22	-1,64

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