Sunrise

Wednesday, 08 March 2017

Rates: ADP employment more important than usual?

US yield resistances remain under severe test (2y: 1.3%, 5y: 2%; 10y 2.55%; 30y 3.13%), with even small breaks at the front end of the curve, suggesting that today's ADP employment report could have more market-moving potential than is generally the case. If it's strong enough, it could trigger breaks even with payrolls and Fed ahead.

Currencies: USD in consolidation modus ahead of ECB and Payrolls

The dollar remains will bid even as risk sentiment eased slightly this week. Interest rate differentials continue to support the US currency. Today, the ADP labour market report is the only eco data series with potential to move the dollar. More consolidation ahead of the ECB and the payrolls might be on the cards.

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 equities lost marginally ground yesterday** as the waiting game for new impetus (payrolls, Fed) continues. **Overnight, most Asian stock markets lose up to 0.5%.**
- **Japan's economy** grew more than earlier estimated in Q4 2016 (0.3% Q/Q) as **capital expenditure (2% Q/Q) grew at its fastest in almost three years.** Private consumption was flat in the final three months of last year.
- A huge miss for **China** exports saw the nation plunge to a 60B yuan **trade deficit** in February (172.5B yuan surplus expected). **Imports surged 45% while exports rose a mere 4.2%.** The Lunar New Year holidays helped distort the figures.
- The House of Lords inflicted a 2nd Brexit-bill defeat on PM May. They mandated **Parliament get a "meaningful vote" on the outcome of exit talks,** potentially vetoing any deal. She'll now seek to have it overturned by the Commons.
- The G20 may **no longer explicitly reject protectionism or competitive currency devaluations,** a draft communique of their meeting next week showed, promising only to keep an "open and fair international trading system".
- **German industrial production** increased by 2.8% M/M in January, to be flat Y/Y, which is near December's -0.1% Y/Y (upward revised from -0.7% Y/Y. The market expected a -0.6% Y/Y. All in all, it looks close to expectations.
- **Today's eco calendar** contains the US ADP employment report. UK FM Hammond presents the Spring Budget and Germany & the US tap the market.

Rates

	US yield	-1d
2	1,33	0,02
5	2,04	0,02
10	2,51	0,02
30	3,11	0,01

	DE yield	-1d
2	-0,87	-0,05
5	-0,47	-0,04
10	0,32	-0,02
30	1,14	0,00

German curve bull steepens with short end sharply outperforming

US Treasury curve bear flattens with short end moving through yield resistance

Peripheral spreads including France underperform Bunds

US yields hit key resistance levels

Yesterday, global bonds parted ways with Bunds gaining some ground and US Treasuries recording some losses. The Bund's outperformance versus US Treasuries occurred during the first half of European trading and in late US trading (see graph 1). Disappointing German factory orders, French spread widening (+4 bps) and strong buying pressure at the front end of the German curve partly helped, but we label yesterday's Bund move as consolidation into tomorrow's ECB meeting. Equity markets treaded water. Brent crude surged above $56.5/barrel and capped Bund gains, but was heavily sold in the afternoon session without impacting bonds. **US Treasuries lost ground during the US session, as prices slowly grinded, led by the shorter end. Heavy corporate issuance and positioning for the 3-yr T-Note auction might have been at play against the background of an expected Fed rate hike next week. Finally, the 3-yr Note auction was rather weak.** The US trade balance widened as expected, but was ignored. From a **technical point of view**, key US yield resistance levels remain under test with the 2y and 5y even closing slightly above those levels, but not enough yet to call the yield resistances firmly broken (2y: 1.3%, 5y: 2%, 10y: 2.5%, 30y: 3.13%).

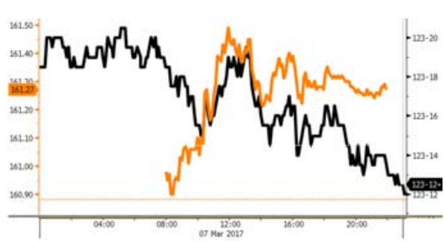
In a daily perspective, the **German yield curve bull steepened** with yield changes ranging between -4.8 bps (2-yr) and -0.3 bps (30-yr). The **US yield curve** shifted 1.6 bps (30-yr) to 3 bps (5-yr) higher, bear flattening the curve. **On intra-EMU bond markets,** 10-yr yield spread changes versus Germany widened 3/4/5 bps (Portugal/Spain, France, Italy) with Greece underperforming (+15 bps).

ADP job report precursor for Friday's US payrolls?

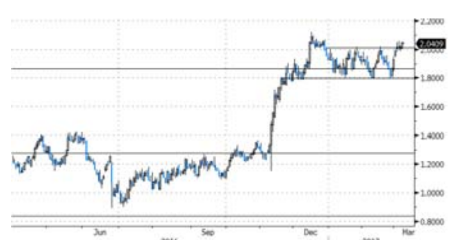
UK chancellor presents Spring budget

US ADP Employment report in the focus

The **EMU calendar is empty today,** after the German production data (see headlines). In the US, **only the February ADP Employment report is of importance.** It concerns private payrolls and is a pointer for the more important US payrolls, which will be released on Friday. In January, ADP surprised on the upside with a net job growth of 246K. It was an outlier. For February, a more trend-like 187K job growth is expected. The pointers are for a strong payrolls report, as the correlation with the ADP is not bad. Today's ADP might colour positioning going into the payrolls.



T Note future (black) & S&P future (orange) (intraday) part ways during most of the session



US 5-yr yield, a monetary-policy sensitive tenor moves through yield resistance (multiple bottom) but cycle highs nearbyat 2.12%

R2	164,40	-1d
R1	163,12	
BUND	161,23	0,35
S1	160,13	
S2	158,28	

Germany and US tap market

The German Finanzagentur holds a 5-yr Bobl auction (€4B 0% Apr2022). Total bids at the previous 4 Bobl auctions averaged a disappointing €4.84B. The unattractive absolute yield, back below the ECB's deposit rate won't lure investors. The bond didn't cheapen in ASW spread curves going into the auction, but trades a tad cheap on the German curve. We expect lacklustre demand.

The US Treasury started its mid-month refinancing operation with a sluggish $24B 3-yr Note auction. The auction stopped with a small tail and the bid cover (2.74) was down from the prior couple of months. Bidding details were mixed at best. Today, the US Treasury continues with a **$20B 10-yr Note auction**. Currently, the WI trades around 2.52%. The proximity of the Fed meeting might keep more investors at bay.

ADP Employment more important than usual?

Overnight, most Asian stock markets lose up to 0.5%. The US Note future is marginally higher and Brent crude stabilizes around yesterday's low. We expect a slightly stronger opening for the Bund.

Today's eco calendar only contains the US ADP employment report. US yield resistance remain under severe test (2y: 1.3%, 5y: 2%; 10y 2.55%; 30y 3.13%), with even small breaks at the front end of the curve, suggesting that the report could have more market-moving potential than is generally the case. A very strong report could cause technical breaks. In case of disappointment, those levels are probably safe until the payrolls (Friday) or Fed meeting (Wednesday). **We think it's only a matter of time before the break occurs and position for higher US rates.**

The Bund trades rather volatile of late, but the failed test of 0.17%/0.2% suggests more range trading (0.2%-0.5% in yield terms). Longer term, we hold our bearish view also for Bunds as we expect a new "calibration" of the ECB's QE programme in H2 2017. At tomorrow's meeting, we don't think that ECB Draghi will already start taper talks. Instead, he'll probably refer again to subdued underlying inflation pressure. Developments in the French presidential election race and risk sentiment on stock markets are wildcards for trading.

German Bund (June contract!!!): Volatile trading into ECB meeting

US Note future (June contract!!!): Rising probability March rate hike pulls US Treasuries lower. Downside protected ahead of payrolls?

Currencies

Interest rate differentials support minor USD gains.

Decline in ST German yields weighs on the dollar.

Asian equities are trading slightly softer

USD/JPY struggles to sustain north of 114

R2	1,1145	-1d
R1	1,0874	
EUR/USD	1,0568	-0,0017
S1	1,0341	
S2	1,0000	

Calendar modestly interesting

ADP labour report main release

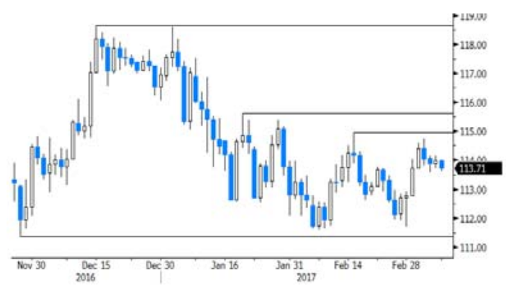
USD consolidation ahead of ECB and payrolls

On Tuesday, the dollar traded with a slight positive bias. Interest rate differentials weighed on EUR/USD as short-term German yields declined. Later in the session, the decline of core bond yields bottomed out, causing a cautious bid in USD/JPY. The US trade deficit was big ($48.5 bln), but with no negative dollar consequences. EUR/USD finished at 1.0566 (from 1.0582). USD/JPY closed the day at 113.98 (from 113.89).

Overnight, most Asian equities show modest losses in low volume trading. The February China trade data showed an unexpected deficit of CNY 60.36 bln (see headlines) but Chinese New Year likely distorted the figure. Japan Q4 GDP growth was revised up to a still soft 0.3% Q/Q, but with limited market impact. **The yen (USD/JPY 113.75 area) trades slightly stronger as Japanese equities are softer. EUR/USD holds near yesterday's closing levels (1.0565).** The Aussie dollar lost slightly ground after the publication of the China trade data, even as Chinese imports of commodities rose strongly. AUD/USD is changing hands near 0.76.

The **EMU calendar is empty today**, after the German production data have been released this morning (see headlines). In the US, **only the February ADP Employment report is of importance**. In January, the ADP surprised on the upside with a net private job growth of 246K. For February a more trend-like 185K job growth is expected. On a monthly basis, there are often substantial deviations between ADP and payrolls. So, a big surprise is probably needed for the ADP to affect USD trading. **In a daily perspective, the odds for USD trading are mixed/indecisive.** Last week's USD profit taking looks finished**. Sentiment on risk is turning cautious, but for now it doesn't hurt the dollar. We expect more technical trading going into tomorrow's ECB meeting and Friday's US payrolls. Declining (ST) German yields weighed on the euro yesterday. Even so, we see no trigger for the dollar to clear significant technical levels now.** (EUR/USD (1.0494) or in USD/JPY (114.95)).

EUR/USD: upside(USD correction) blocked. USD waiting for a trigger to resume uptrend?



USD/JPY. Consolidation ahead of US payrolls report

Global context: Last week, the focus shifted from US fiscal policy to the Fed's monetary policy, as the Fed prepared markets for a March rate hike. However, the dollar rally petered out as a March rate hike is now discounted. EUR/USD 1.0494 and USD/JPY 114.95 were tested, but no break occurred. **Some ST USD**

consolidation might be on the cards. The payrolls are the next key issue for USD trading. USD/JPY 111.60/111.16 (Range bottom/38% retracement of the 99.02/118.66 rally) remains a key and solid support. Last week's correction suggests that it is too early for a break higher in the absence of important USD supportive news. In EUR/USD 1.0829/74 is the short-term line in the sand with intermediate resistance at 1.0679. A sell EUR/USD on upticks remains favoured.

R2	0,8854	-1d
R1	0,8682	
EUR/GBP	0,8661	0,0002
S1	0,8592	
S2	0,8304	

Sterling drifts south; Budget in focus today

On Tuesday**, sterling traded again with a negative bias.** Eco data (BRC sales; Halifax housing prices) suggested that the UK economy's positive momentum post-Brexit is easing. **Sterling declined further against the dollar.** EUR/GBP **returned to the 0.8680 area,** but declined slightly later in the session. The UK government faced another defeat in the Brexit-debate in the Upper House. The House of Lords changed the Brexit-bill draft and asked a meaningful vote on the outcome of the Brexit-negotiation. EUR/GBP finished the session at 0.8566 (from 0.8648). Cable closed the session at 1.2200.

Today, UK Chancellor of the Exchequer, Phillip Hammond, will present the Spring UK Budget. The Budget is expected to support specific categories of citizens as the impact of Brexit might hurt spending. There will also be selective investment plans. **In a broader perspective, the budget will probably be rather restrictive as the government still wants to further reduce the budget deficit. If anything, ongoing budgetary austerity could be a slightly negative for sterling.** Regarding Brexit, UK PM May will try to convince conservatives in the House of Commons to rejected the amendments from the Lords. This debate probably won't support sterling even as more involvement of Parliament was in the past considered as reducing the chances on a hard Brexit. **Sterling sentiment softened of late.** The euro was in better shape at the end of last week, helping EUR/GBP to break the 0.8592 resistance, which **improved the short-term EUR/GBP picture.** We don't expect a sustained EUR/USD rebound , but a combination of temporary euro consolidation and ongoing sterling softness might trigger some further ST EUR/GBP gains. **A sustained break north of 0.8645 might reinforce the ST positive momentum. Longer term, we keep a sterling negative view, as the Brexit will negatively impact the UK.**

EUR/GBP: clears first resistance at 0.8592. 0.8645 resistance under test

GBP/USD holding near the recent lows.

Calendar

Wednesday, 8 March		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	5.8%
14:15	**ADP Employment Change (Feb)**	**187k**	**246k**
14:30	Nonfarm Productivity (4Q F)	1.5%	1.3%
14:30	Unit Labor Costs (4Q F)	1.6%	1.7%
16:00	Wholesale Inventories MoM (Jan F)	-0.1%	-0.1%
16:00	Wholesale Trade Sales MoM (Jan)	0.5%	2.6%
Japan			
..	Eco Watchers Survey Current SA (Feb)	A: 48.6	49.8
..	Eco Watchers Survey Outlook SA (Feb)	A: 50.6	49.4
00:50	BoP Current Account Adjusted (Jan)	A: ¥1259.8b	¥1669.2b
00:50	GDP SA QoQ (4Q F)	A: 0.3%	0.2%
00:50	GDP Deflator YoY (4Q F)	A: -0.1%	-0.1%
00:50	Bank Lending Incl Trusts YoY / Ex-Trusts YoY (Feb)	A: 2.8%/2.9%	2.5%/2.6%
06:00	Leading Index CI (Jan P)	A: 105.5	104.8
China			
	Trade Balance CNY (Feb)	A: -60.36B	354.50b
	Imports YoY CNY (Feb)	A: 44.7%	25.2%
	Exports YoY CNY (Feb)	A: 4.2%	15.9%
Germany			
08:00	**Industrial Production SA MoM / WDA YoY (Jan)**	**2.7%/-0.6%**	**-3.0%/-0.7%**
Spain			
09:00	INE House Price Index QoQ / YoY (4Q)	--/--	0.8%/4.0%
09:00	Industrial Production MoM YoY (Jan)	-0.2%/2.4%	-0.5%/1.9%
Sweden			
09:30	Household Consumption (MoM) / (YoY) (Jan)	--/--	-2.1%/0.7%
Events			
11:30	Germany to Sell €4B 0% 2022 Bonds		
13:30	**UK Spring Budget**		
19:00	US to Sell $20B 10-yr Notes		

10-year	td	-1d		2-year	td	-1d	Stocks	td	-1d
US	2,51	0,02		US	1,33	0,02	DOW	20924,76	-29,58
DE	0,32	-0,02		DE	-0,87	-0,05	NASDAQ	5833,929	-15,25
BE	0,83	0,02		BE	-0,57	-0,03	NIKKEI	19254,03	-90,12
UK	1,19	-0,02		UK	0,10	-0,01	DAX	11966,14	7,74
JP	0,08	0,01		JP	-0,28	0,01	DJ euro-50	3385,12	-2,34
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,05	1,86	0,66	Eonia	-0,3530	-0,0010			
5y	0,18	2,12	0,81	Euribor-1	-0,3730	0,0010	Libor-1	0,8467	0,0122
10y	0,78	2,46	1,20	Euribor-3	-0,3280	0,0010	Libor-3	1,1062	0,0046
				Euribor-6	-0,2400	0,0010	Libor-6	1,4210	-0,0017
Currencies	td	-1d		Currencies	td	-1d	Commodities	td	-1d
EUR/USD	1,0568	-0,0017		EUR/JPY	120,17	-0,46	CRB	188,02	-1,40
USD/JPY	113,71	-0,25		EUR/GBP	0,8661	0,0002	Gold	1216,90	-8,60
GBP/USD	1,2203	-0,0022		EUR/CHF	1,0710	-0,0002	Brent	55,57	-0,27
AUD/USD	0,7593	-0,0023		EUR/SEK	9,5255	-0,0165			
USD/CAD	1,3408	0,0011		EUR/NOK	8,9397	-0,0487			

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