



## Sunrise

**Monday, 04 September 2017**

### Rates: Risk aversion after North Korean nuclear test

Risk aversion dominates Asian trading this morning (positive for core bonds) after Pyongyang's latest nuclear test which triggered an aggressive verbal response by the US. Such geopolitical events had a rather short timestamp on markets of late, but the absence of US traders (Labour Day Holiday) and eco data suggests that it will be today's only trading theme.

### Currencies: Risk-off sentiment to block USD rebound.

On Friday, the dollar easily dismissed a mediocre US payrolls report, suggesting that the recent USD decline was exhausted. During the weekend, geopolitical tensions returned to the forefront. Of late, a global safe haven bid didn't help the dollar much. So, a further USD comeback might not be that easy.

### Calendar

## Headlines

- **US equities** closed modestly higher as weak payrolls were fast digested. **Asian equities started the week on a weak footing** after North Korea tested a powerful nuclear bomb. **The yen strengthened**, but already lost part of the gains. Gold is moderately higher, but off the lows.
- **North Korea said it successfully tested a hydrogen bomb** with "unprecedentedly big power" that can be loaded onto an intercontinental missile, in its first nuclear test under US Trump's presidency.
- **US defence secretary Mattis**, who was a rather dovish voice inside the administration recently, said the **US will answer any threat from the North with a "massive military response"**.
- US Congressmen return from summer recess Tuesday with the eyes of bond traders squarely upon them. Among their pressing tasks: **increase America's borrowing authority and prevent an unprecedented default before Sep 29**.
- Moody's raised the outlook on **Portugal's** Ba1 bond rating to positive from stable as growth continues to show resilience and the debt structure improves. S&P confirmed **Sweden's** AAA rating stable outlook and Fitch **Germany's** AAA.
- **Russia is likely to back a further extension of the OPEC agreement cutting oil output**, the country's deputy prime minister said. Crude traded volatile, but sideways on Friday and is slightly lower overnight.
- The **eco calendar** is uneventful and **US markets are closed** for Labour Day today. Later this week focus is on **ECB meeting** (Thursday), **US Congress** (debt ceiling, government shutdown) **and US Non-manufacturing ISM** (Wednesday)

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	↗

# Rates

## Second failed test of 2.1% despite weak payrolls

**Core bond yield curves bear steepen**

**Peripheral yield spreads little changed**

**T-Note future shows bearish engulfing pattern**

Core bonds lost moderate ground on Friday despite a weak US payrolls report. US Treasuries underperformed German bonds and both curves bear steepened. In a daily perspective, US yields rose by 1.6 to 5.1 bps, while German yields rose by 0.2 to 4.3 bps. The US move was technically significant with a second failed test of US 10-yr yield support (2.1%). The T-Note future showed a bearish engulfing pattern on the charts.

Comments of ECB Nowotny that one shouldn't dramatize the recent euro strength pushed the Bund temporary lower, but rumours that the ECB would delay its decision on the APP outlook maybe till December (a Bund positive) were ignored. A strong US ISM manufacturing business confidence pushed both US Treasuries and Bunds lower. So, the market was selective in its reaction on various impetus. The immediate reversal of the gains on the US payrolls when the 2.10% 10-yr US yield support was tested, suggests that the upside for core bonds may be exhausted for now. The weak August payrolls might have been considered a statistical quirk, given other labour market evidence. However, safe haven US Treasuries eased further going into a long weekend, which is also a bit unusual. In the same vein, the dollar reversed its initial post-payrolls losses

US yield	-1d
2	1,34
5	1,74
10	2,17
30	2,78

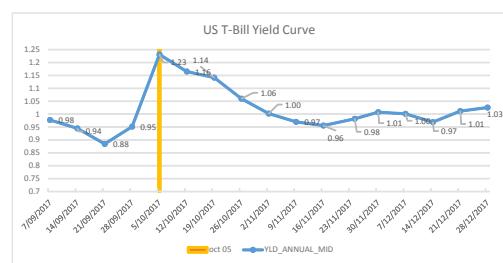
DE yield	-1d
2	-0,73
5	-0,33
10	0,38
30	1,16

## US markets closed for Labour Day

US markets are closed today and the EMU calendar is uneventful with only the Sentix investor confidence for September and the PPI for July. Later this week, most attention goes to Thursday's ECB meeting, the return of US Congress (Tuesday) from its August recess and many Fed speeches ahead of the black period. The rumour mill about the ECB meeting is running hot. ECB Nowotny downplayed euro strength, but unnamed ECB sources suggested that euro strength is making the ECB Council nervous. Other sources said that a decision on the APP programme will be delayed to October or even to December. The ECB president sees as of yet no rise in underlying inflation and a stronger euro isn't going to help inflation higher. On the other hand, growth is strong and above trend, which implies that underlying inflation will at some point start rising. This puts the ECB in a difficult position. The US House will have to hurry up (12 working days left) with the vote on a continuing spending bill to avert a government shutdown early October and on the debt ceiling. Regarding US data, we expect the Non-manufacturing ISM to be strong (as was the manufacturing one, released last Friday).



T-Note future (black) (intraday): Unusual market reaction after weak payrolls & ahead of long weekend. Is upside exhausted for now



Crucial weeks for debt ceiling as Congress resumes work. No agreement before end September means government shutdown & bankruptcy for T-Notes.

R2	165,93	-1d
R1	165,55	
<b>BUND</b>	<b>164,86</b>	<b>-0,22</b>
S1	163,36	
S2	160,31	

## EMU bond supply heats up after Summer lull

This week's scheduled EMU bond supply comes from Austria, Germany, Spain and France. The Austrian debt agency kicks off tomorrow with tapping the on the run 10-yr RAGB (0.5% Apr2027) and an off the run RAGB (4.5% Mar2037) for a combined €1.2B. The German Finanzagentur taps the on the run 5-yr Bobl (0% Oct2022) on Wednesday. The French Treasury holds an OAT-auction on Thursday with two on the run OAT's (1% May2027 & 1.25% May2036) and two off the run OAT's (4.5% Apr2041 & 4% Apr2060) on offer for a combined €8-9B. The Spanish Tesoro sells three on the run bonds that same day: 5-yr Bono 0.4% Apr2022, 10-yr Obligacion 1.45% Oct2027 & 15-yr Obligacion 2.35% Jul2033. The amount on offer still needs to be announced.

## Modest Risk-off after latest North-Korean escalation

Risk aversion reigns overnight in Asian dealings though the market impact remains rather modest. The latest escalation on the Korean peninsula (nuclear test & aggressive verbal response from the US) caused market moves. The US Note future and the Japanese yen gain ground while stock markets lose up to 1% (China outperforms). We expect a stronger opening for the Bund.

The eco calendar is uneventful and **US markets are closed for Labour Day Holiday**. The timestamp of the market reaction to geopolitical events was rather short of late, but today's special circumstances (low volumes, no other trading items) suggest that **risk aversion could remain at play during European dealings**. We don't expect technically relevant moves though as many investors will probably remain side-lined with this week's interesting calendar in the back of their minds (Fed speeches, ECB meeting,... see above). Market expectations about an ECB announcement on APP (extension, but lower volume) have eased during Summer.

The US Note future tested the contract high in combination of a test of 2.1% support in the 10y yield twice last week. A break didn't occur. **A bearish engulfing pattern (trend reversal) appeared on the chart, but confirmation is needed**. It could mark the start of a correction higher/consolidation with more neutral positioning going into key central bank meetings (ECB on Thursday, Fed on Sept 20).



German Bund: Failed test of topside. More neutral positioning into the ECB meeting?



US Note future (December contract!!!): Bearish engulfing suggests that the upside is exhausted with potential trend reversal

# Currencies

## Dollar cautiously softer as sentiment turns risk-off

**Dollar ignores disappointing US payroll.**

R2	1,2225	-1d
R1	1,2167	
<b>EUR/USD</b>	<b>1,1860</b>	<b>-0,0050</b>
S1	1,1662	
S2	1,1311	

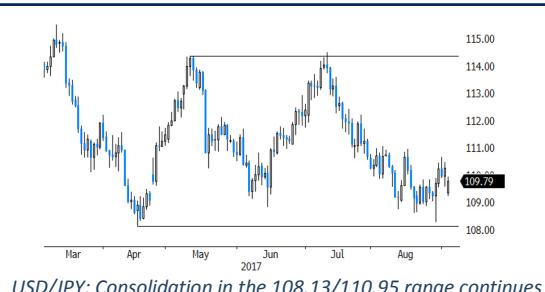
**On Friday, the US payrolls disappointed. The dollar instantaneously lost ground, but losses were rapidly erased. EUR/USD spiked from about 1.1920 to 1.1980, but soon turned back south. The dollar received additional support for a strong US manufacturing ISM. Similarly, USD/JPY dropped temporary to the mid 109 area, only to return north of 110. Investor doubts on the statistical accuracy of the August Payrolls might have played a role in the modest USD reaction to the report. The USD price action suggest that the recent setback of the USD is exhausted. EUR/USD finished the session at 1.1860 (from 1.1910). USD/JPY ended at 110.25 (from 109.989).**

**North Korea tensions are moderately support for the yen**

**EUR/USD shows no clear trend.**

During the weekend, **geopolitical risk returned to the forefront** as North Korea tested a new nuclear bomb on Sunday. Major regional equity indices are losing about 1%. China outperforms. USD/JPY opened sharply lower in the 109.25 area, but the yen already returned an important part of the earlier gains (currently 109.80 area). The North Korea tensions have little impact on EUR/USD. It holds very tight range near the 1.1880 level.

**Today, US markets are closed today and the EMU calendar is uneventful** with only the Sentix investor confidence for September and the PPI for July. Later this week, most attention goes to Thursday's **ECB meeting**, the return of **US Congress (Tuesday)** and **many Fed speeches ahead of the black period**. The rumour mill about the ECB meeting is running hot. ECB Nowotny downplayed euro strength, but unnamed ECB sources suggested that euro strength is making the ECB Council nervous. Other sources said that a decision on the APP programme might be delayed to October or even to December. The stronger euro isn't going to help inflation higher, but growth is above trend, which implies that underlying inflation will at some point start rising. This puts the ECB in a difficult position. The US House will have to hurry up with the vote on a continuing spending bill to avert a government shutdown early October and on the debt ceiling. Regarding US data, we expect the **Non-manufacturing ISM to be strong** as was the manufacturing one.



**Sentiment on the dollar improved slightly after the post Jackson-Hole sell-off. However, for now, the US currency didn't regain any technically relevant level against the euro or the yen.** So, the jury is still out whether a sustained USD rebound is on the cards. The data might be slightly USD supportive.

Monday, 04 September 2017

A (moderate) risk-off sentiment didn't help the dollar much of late. Therefore, we start the week with a neutral bias.

**If EUR/USD would fall below the 1.18/1.1775 area, it would suggest that more downside short-term.** For such a move, the USD needs good data and higher US yields. On the euro side of the story, Draghi has to convince markets that low inflation is enough a reason for the ECB to maintain a loose monetary policy. On the topside, the 1.2070 correction top remains the first reference.

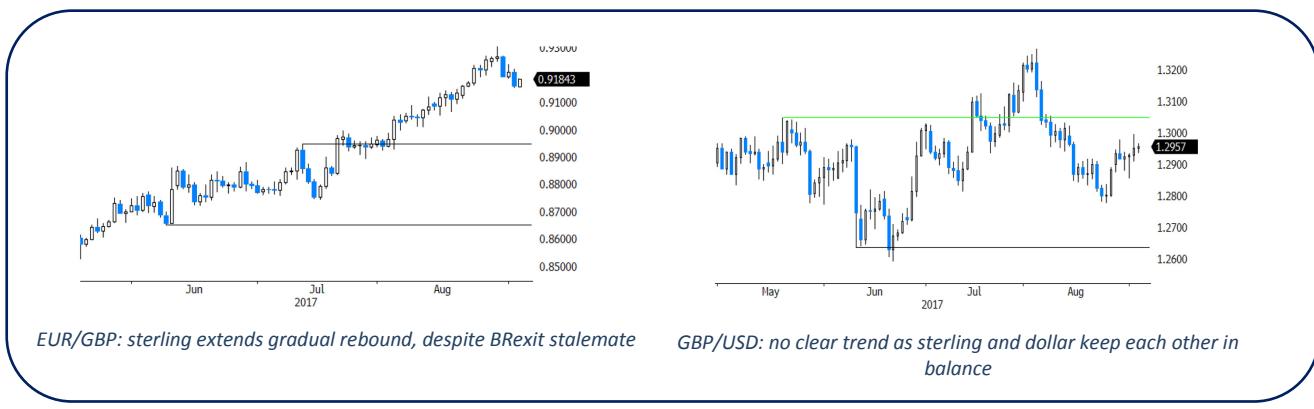
A downward correction in core (US and European) yields supported the yen in August. **USD/JPY declined from mid-114 mid-July and came within reach of the key 108.13 range bottom, but the support did its job.** We maintain the working hypothesis that this level won't be broken as a lot USD bad news is discounted. A cautious buy-on-dips (with stop-loss protection below 108) may be considered. USD/JPY needs to regain the 110.95 level to suggest an improved upside momentum. Such a break might be difficult if sentiment would turn risk-off.

### EUR/GBP drops below 0.92

Sterling traded sideways in the Friday's morning session, ignoring **an unexpectedly strong Manufacturing PMI.** The improvement was broad-based suggesting that the weak pound is starting to help the economy. EUR/GBP kept close to the 0.9210 going towards the US payrolls release. **Strange enough, cable didn't return gains against the dollar after the weaker payrolls unlike EUR, JPY, .... This resulted in a significant decline of EUR/GBP.** The pair closed the session at 0.9159 (from 0.9211). Cable closed the session at 1.2951 (from 1.2930).

**Today,** only the **UK construction PMI** will be published. A big deviation from consensus is needed to inspire any GBP reaction. During the weekend, there were diverging comments on the poor progress in the Brexit negotiations. UK Davis dismissed rumours that the UK would consider to pay an exit bill of about £ 50 bln. The lack of process in the Brexit talks is a negative for sterling. However, as is the case for the dollar, the recent sterling decline (especially against the euro) looks exhausted. So, some consolidation ahead of the ECB meeting might be on the cards.

R2	0,9415	-1d
R1	0,9307	
<b>EUR/GBP</b>	<b>0,9159</b>	<b>-0,0052</b>
S1	0,8995	
S2	0,8743	



**From a technical point of view,** EUR/GBP cleared the 0.8854/80 resistance (top end June), opening the way for further gains. The move was the result of euro strength. Simultaneously, UK price data were soft enough to keep the BoE sidelined. MT, we maintain a **buy EUR/GBP on dips approach as we expect the combination of relative euro strength and sterling softness to persist. The 0.9415 'flash-crash spike' is the next target on the charts. However, wait for a correction, e.g. to the technical support in the 0.88/89 area, to sell sterling again versus the euro.**

# Calendar

Monday, 4 September			Consensus	Previous
<b>UK</b>				
10:30	Markit/CIPS UK Construction PMI (Aug)		52	51.9
<b>EMU</b>				
10:30	Sentix Investor Confidence (Sep)		27	27.7
11:00	PPI MoM / YoY (Jul)		0.1%/2.1%	-0.1%/2.5%
<b>Spain</b>				
09:00	Unemployment MoM Net ('000s) (Aug)		12K-	-26.9
<b>Events</b>				
10:30	BOE Kumhof speaks in Vienna			
<b>US</b>	<b>Markets closed for Labour Day Holiday</b>			

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
<b>US</b>	2,17	0,05	<b>US</b>	1,34	0,02	<b>DOW</b>	21987,56	39,46	
<b>DE</b>	0,38	0,02	<b>DE</b>	-0,73	0,00	<b>NASDAQ</b>	6435,331	6,67	
<b>BE</b>	0,69	0,02	<b>BE</b>	-0,56	0,00	<b>NIKKEI</b>	19508,25	-183,22	
<b>UK</b>	1,06	0,02	<b>UK</b>	0,19	0,01	<b>DAX</b>	12142,64	86,80	
<b>JP</b>	0,00	0,00	<b>JP</b>	-0,16	0,01	<b>DJ euro-50</b>	3443,88	22,41	
<b>IRS</b>	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	<b>USD</b>	<u>-1d</u>	<u>-2d</u>
<b>3y</b>	-0,09	1,64	0,63	<b>Eonia</b>	-0,3570	-0,0120			
<b>5y</b>	0,17	1,80	0,79	<b>Euribor-1</b>	-0,3730	0,0000	<b>Libor-1</b>	1,2306	-0,0011
<b>10y</b>	0,81	2,12	1,15	<b>Euribor-3</b>	-0,3290	0,0000	<b>Libor-3</b>	1,3161	-0,0017
				<b>Euribor-6</b>	-0,2730	0,0000	<b>Libor-6</b>	1,4533	-0,0006
<b>Currencies</b>	<u>Close</u>	<u>-1d</u>	<b>Currencies</b>	<u>Close</u>	<u>-1d</u>	<b>Commodities</b>	<u>Close</u>	<u>-1d</u>	
<b>EUR/USD</b>	1,1860	-0,0050	<b>EUR/JPY</b>	130,75	-0,23	<b>CRB</b>	180,95	0,09	
<b>USD/JPY</b>	110,25	0,27	<b>EUR/GBP</b>	0,9159	-0,0052	<b>Gold</b>	1330,40	8,20	
<b>GBP/USD</b>	1,2951	0,0021	<b>EUR/CHF</b>	1,1441	0,0022	<b>Brent</b>	52,75	-0,11	
<b>AUD/USD</b>	0,7975	0,0028	<b>EUR/SEK</b>	9,488	0,0329				
<b>USD/CAD</b>	1,2394	-0,0088	<b>EUR/NOK</b>	9,2483	0,0051				

# Contacts

Brussels Research (KBC)		Global Sales Force	
		Brussels	
Piet Lammens	+32 2 417 59 41	Corporate Desk	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk	+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94	France	+32 2 417 32 65
<b>Dublin Research</b>		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
<b>Prague Research (CSOB)</b>		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
<b>Bratislava Research (CSOB)</b>		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
<b>Budapest Research</b>		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

