



Sunrise

Friday, 08 December 2017

Rates: White smoke of political scene and strong (?) payrolls

Strong Japanese/Chinese eco data and positive developments on the political scene (government shutdown temporary averted; Brexit agreement) boost risk sentiment and weigh on core bonds. Today's payrolls report is expected to be strong and could inflict additional losses ahead of next week's Fed meeting.

Currencies: Will payrolls be strong enough to sustain further USD gains?

The dollar extended its recent gradual rebound yesterday, supported by a positive risk sentiment and ongoing solid interest rate support. Today's payrolls will decide whether the US currency can extend further gains going into next week's Fed meeting. Sterling rallied overnight as a Brexit deal was announced for this morning.

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 gained slightly ground yesterday**, ending around 0.3% higher. **Risk sentiment improved further in Asia overnight** with China and Japan gaining up to 1%.
- **Congress passed a two-week extension of federal funding that averts a government shutdown** this week but defers decisions on spending levels for defense and domestic programs, with December 22 the new deadline.
- UK PM May and EU's Juncker held a press conference this morning announcing a **break-through in the first round of the Brexit negotiations**. EU'S Juncker said the EC recommends that sufficient progress has been made on the divorce and indicated that Brexit talks can enter the second phase.
- **China's exports (12.3% Y/Y) and imports (17.7% Y/Y) unexpectedly accelerated last month**, though growth could continue cooling amid a government crackdown on financial risks and polluting factories.
- **Japan's economy grew much faster as originally estimated** in Q3 (2.5% Q/Qa vs 1.5% Q/Qa) thanks to big gains in capital expenditure (1.1% Q/Q), revised data showed, with expansion seen to continue thanks to buoyant exports.
- **Global bank regulators broke a year-long deadlock and closed the book on Basel III**. The deal includes new curbs on how banks estimate the risk of mortgages, loans and other assets on their books.
- **Today's eco calendar** heats up in the US with the payrolls report. Unemployment rate and average hourly earnings will also be closely watched. UK industrial production and trade balance are on the agenda as well.

Rates

US government shutdown averted, for now...

	US yield	-1d
2	1,80	0,00
5	2,15	0,01
10	2,36	0,02
30	2,77	0,03

Test key support German 10y yield ongoing

	DE yield	-1d
2	-0,76	-0,01
5	-0,38	-0,01
10	0,29	0,00
30	1,15	0,02

Another strong US payrolls report?

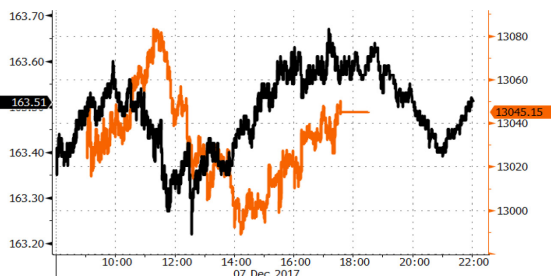
Steepening German/US yield curves

Global core bonds traded in a narrow sideways range yesterday. US Treasuries underperformed after European close on headlines that US President Trump was readying an infrastructure plan for January release. The proposal would aim to generate \$1 tn in total investment. More or less simultaneously, House speaker Ryan suggested that the GOP had the votes to fund the government passed this weekend's funding deadline. Eventually, they did so by passing legislation to keep the government running until December 22. Second tier eco data (disappointing German industrial production, confirmation EMU Q3 GDP and strong jobless claims) didn't play a role. Risk sentiment on equity and commodity markets improved.

In a daily perspective, the German yield curve steepened with yield changes varying between -1.2 bps (2-yr) and +1.7 bps (30-yr). The underperformance of the very long end was due to ministry of finance comments about next year's funding (possibility of 50y Bund and continued reliance on 30y Bunds). The German 10-yr yield closed just above key support for a second straight day. The US yield curve steepened as well with yield changes ranging between -0.4 bps (2-yr) and +3.1 bps (30-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany ended unchanged with the periphery outperforming (2 to 6 bps spread narrowing).

Today's eco calendar heats up in the US with the November payrolls report.

Consensus expects a net job gain of 195k, following the post-hurricane rebound in October (261k). The unemployment rate is forecast to stabilize at 4.1%, the lowest level since 2000 and below the Fed's NAIRU estimate (4.6%). Average hourly earnings are expected to post a good acceleration (0.3% M/M and 2.7% Y/Y). **Almost every other recent indicator about the US labour market continued to point at strength, which we expect to be confirmed by today's payrolls.**



German Bund (black) & Dax (orange) intraday: nothing to get excited about



US 2-yr yield: rate market catching up with FOMC forecasts for the first time this tightening cycle. Two hikes discounted in 2018 vs 3 dots.

White smoke on political scene and strong (?) payrolls

R2	165,18	-1d
R1	163,67	
BUND	163,36	0,13
S1	161,49	
S2	159,78	

Risk sentiment is positive overnight with China and Japan gaining more than 1% following strong regional data (Japanese GDP & Chinese trade balance). Developments on the US and European political scene boost sentiment further. The US government agreed a short-term measure to delay to secure government funding from this weekend to December 22. EC Juncker and UK PM May reached a deal on phase 1 of the Brexit talks. The US Note future cedes more ground, suggesting a lower opening for the Bund as well.

The eco calendar heats up today with US payrolls. We expect more signs of strength from the US labour market. A stronger or in line with consensus outcome should be sufficient to inflict losses on US Treasuries. That should especially be the case if the outcome reaches the consensus on earnings (0.3% M/M & 2.7% Y/Y). **Markets are for the first time this tightening cycle moving towards the FOMC's projections. They currently already discount 2 rate hikes for next year (vs 3 dots). In case of strong payrolls, more repositioning could be possible going into next week's FOMC meeting. Improving risk sentiment and strong data explain our downward intraday bias, with US Treasuries potentially underperforming Bunds.**

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%, although the test is ongoing. **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!): heading towards lower bound sideways channel on strong payrolls?

Currencies

Payrolls strong enough to sustain USD gains?

Dollar extends gradual rebound on improving risk sentiment

Strong eco data from China and Japan support positive sentiment in the region

Dollar extends rebound. USD/JPY regains the 113 handle

Positive political headlines might be slight supportive for risk and the dollar

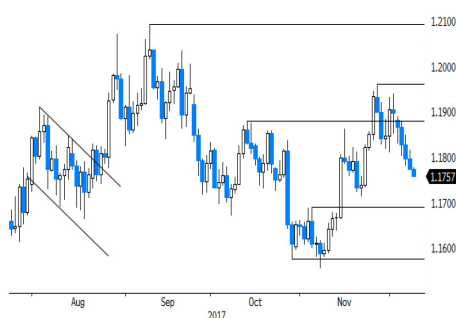
Payrolls to decide on next directional USD move

R2	1,2225	-1d
R1	1,2092	
EUR/USD	1,1773	-0,0023
S1	1,1554	
S2	1,1331	

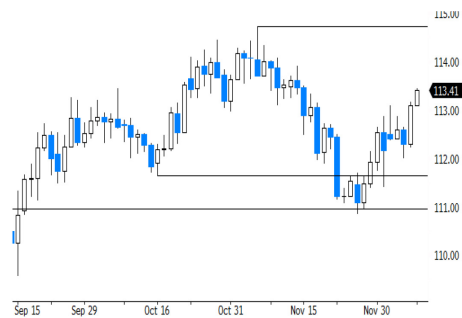
There was no high profile news to guide trading in the major FX cross rates yesterday. The risk-off correction slowed, but at first there was no sustained rebound. Sentiment improved later in the session. US equities finished the session with decent gains. US House and Senate approved a two-week stopgap funding deal after the US close, providing funding for the US government till Dec 22. Gains of the dollar were modest, but the announcement supported an overall constructive market sentiment. EUR/USD closed the session at 1.1773. USD/JPY finished at 113.09.

Asian equities are extending yesterday's comeback overnight with Japan taking the lead. The economic news flow was mostly positive. Japan Q3 GDP was revised sharply higher from 1.5% Q/Qa to 2.5% Q/Qa, propelled by strong business investment and by a rise in inventories. Japanese real wages rose (0.2% Y/Y) in October. Chinese November imports and exports also beat the consensus by quite a big margin, supporting regional sentiment. The overall positive sentiment via higher core yields supports the dollar rather than regional currencies. USD/JPY extends gains north of 113 (currently 113.40). EUR/USD (1.1765) is holding near recent lows.

US November payrolls provide the last important economic input going into next week's Fed meeting. The US economy is expect to have added a net 195 000 jobs. The jobless rate is expected unchanged at 4.1%. However, the market focus will be on wages/earnings data. Average hourly earnings are expected to rise 0.3% M/M and 2.7% Y/Y, after disappointing readings in the previous months (0.0% M/M and 2.4% Y/Y in October). If payrolls, and wages in particular, are in line with the consensus (or better), it might already be enough to sustain a gradual further rise of the dollar. Markets could question the Fed rate hike path in 2018 in case of a big miss. We have no reason to expect the data to undershoot the consensus. Maybe there is a slight risk for a rise in the unemployment rate after last months unexpected decline, but that won't bother markets. This morning, politics dominate the headlines. The news flow (US spending bill and Brexit deal) might support support core yields and the dollar. However, the payrolls probably hold the key for the next directional move. We see a good chance for the payrolls' outcome to sustain this week's gradual USD comeback.



EUR/USD: USD keeps positive momentum going into the US Payrolls.



USD/JPY extends rebound, trending higher within consolidation pattern

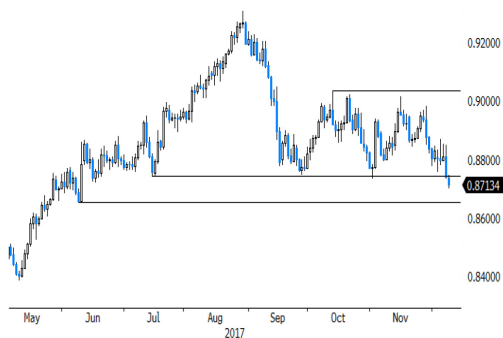
From a technical point of view: EUR/USD set a post-ECB low mid-November, but the dollar's momentum wasn't strong enough. EUR/USD settled in a directionless sideways consolidation pattern in the 1.18/19 area. A return below 1.1713 would signal an improvement in the ST USD momentum, going into next week's Fed meeting. Will today's payrolls be able to force the break? Next support comes in at 1.1554 (November low). **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 returned again in the 110.84/114.73 consolidation range. We amended our ST bias from negative to neutral. We maintain the view that a sustained break north of 115 won't be easy.**

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8737	-0,0070
S1	0,8743	
S2	0,8657	

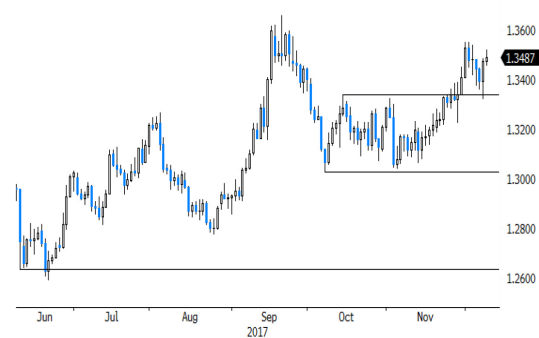
EUR/GBP tests 0.8733 support on Brexit deal

There was little hard news on Brexit yesterday. Sterling was captured in erratic order-driven trading for most of the day. In the evening, rumours/comments from sources close to the UK/Irish government and the European commission suggested that an agreement on the Irish border was within reach and that a deal could be finished as soon as Friday morning. Sterling rallied and EUR/GBP closed the session at 0.8737, testing a first key support area. Cable finished the day at 1.3474.

This morning, all eyes were on Brussels as PM May and EU commission chairman Juncker met at 7 AM. In a press conference, EU's Juncker said that the European commission considered that enough progress had been made on a divorce deal. It recommends the EU leaders to move to the next stage of the negotiations, to be confirmed at next week EU summit. At the time of writing we have no details of the content of the agreement yet. Sterling rallied in the run-up to the announcement of the deal, but the rally slowed during the press conference. EUR/GBP currently hovers in the 0.87 area. For now we remain cautious on further sterling gains from here as long as we have no insight on the details of the deal, e.g. with respect to the Irish border. **From a technical point of view,** EUR/GBP tries to break first support at 0.8733. In case of a sustained break, next intermediate support comes in in the mid 0.86 area.



EUR/GBP testing downside support on Brexit deal



GBP/USD: dollar strength prevents cable breaking higher after Brexit deal

Calendar

Friday, 8 December		Consensus	Previous
US			
14:30	Change in Nonfarm Payrolls (Nov)	195k	261k
14:30	Two-Month Payroll Net Revision (Nov)	--	90k
14:30	Change in Private Payrolls (Nov)	195k	252k
14:30	Change in Manufact. Payrolls (Nov)	15k	24k
14:30	Unemployment Rate (Nov)	4.1%	4.1%
14:30	Average Hourly Earnings MoM / YoY (Nov)	0.3%/2.7%	0.0%/2.4%
14:30	Average Weekly Hours All Employees (Nov)	34.4	34.4
14:30	Labor Force Participation Rate (Nov)	--	62.7%
14:30	Underemployment Rate (Nov)	--	7.9%
16:00	U. of Mich. Sentiment (Dec P)	99.0	98.5
Japan			
	Eco Watchers Survey Current SA (Nov)	A: 55.1	52.2
	Eco Watchers Survey Outlook SA (Nov)	A: 53.8	54.9
00:50	GDP SA QoQ (3Q F)	A: 0.6%	0.3%
01:00	Labor Cash Earnings YoY (Oct)	A: 0.6%	0.9%
01:00	Real Cash Earnings YoY (Oct)	A: 0.2%	-0.1%
China			
	Exports YoY CNY (Nov)	A: 10.3%	6.0%
	Imports YoY CNY (Nov)	A: 15.6%	15.9%
	Trade Balance CNY (Nov)	A: 263.6b	253.72b
	Exports YoY (Nov)	A: 12.3%	6.8%
	Imports YoY (Nov)	A: 17.7%	17.2%
	Trade Balance (Nov)	A: \$40.21b	\$38.06b
08DEC-18DEC	Foreign Direct Investment YoY CNY (Nov)	--	5.0%
UK			
10:30	Industrial Production MoM / YoY (Oct)	0.0%/3.5%	0.7%/2.5%
10:30	Manufacturing Production MoM / YoY (Oct)	0.0%/3.8%	0.7%/2.7%
10:30	Construction Output SA MoM / YoY (Oct)	0.1%/1.8%	-1.6%/1.1%
10:30	Visible Trade Balance GBP/Mn (Oct)	£11500	£11253
10:30	Trade Balance Non EU GBP/Mn (Oct)	£3300	£2982
10:30	Trade Balance (Oct)	£3000	£2754
10:30	BoE/TNS Inflation Next 12 Mths (Nov)	--	2.8%
14:00	NIESR GDP Estimate (Nov)	0.4%	0.5%
Germany			
08:00	Trade Balance (Oct)	21.9b	24.1b
08:00	Current Account Balance (Oct)	20.0b	25.4b
08:00	Exports SA MoM / Imports SA MoM (Oct)	1.0%/1.0%	-0.4%/-1.1%
08:00	Labor Costs SA QoQ / WDA YoY(3Q)	--/--	0.3%/2.3%
France			
08:45	Budget Balance YTD (Oct)	--	-76.3b
08:45	Industrial Production MoM / YoY (Oct)	-0.1%/2.9%	0.6%/3.2%
08:45	Manufacturing Production MoM / YoY (Oct)	--/--	0.4%/3.1%

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,36	0,02	US	1,80	0,00	DOW	24211,48	70,57	
DE	0,29	0,00	DE	-0,76	-0,01	NASDAQ	6812,841	36,47	
BE	0,49	0,00	BE	-0,62	-0,01	NIKKEI	22811,08	313,05	
UK	1,25	0,03	UK	0,51	0,02	DAX	13045,15	46,30	
JP	0,05	-0,01	JP	-0,15	-0,01	DJ euro-50	3573,13	11,56	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,07	2,09	0,94	Eonia	-0,3270	-0,0010	Libor-1	1,4069	0,0000
5y	0,20	2,20	1,10	Euribor-1	-0,3660	0,0010	Libor-3	1,5226	0,0000
10y	0,79	2,38	1,34	Euribor-3	-0,3250	0,0010	Libor-6	1,7145	0,0000
				Euribor-6	-0,2710	0,0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1773	-0,0023	EUR/JPY	133,13	0,68	CRB	184,47	-0,25	
USD/JPY	113,09	0,80	EUR/GBP	0,8737	-0,0070	Gold	1253,10	-13,00	
GBP/USD	1,3474	0,0081	EUR/CHF	1,1708	0,0031	Brent	62,20	0,98	
AUD/USD	0,7511	-0,0053	EUR/SEK	9,9905	0,0397				
USD/CAD	1,2854	0,0065	EUR/NOK	9,7906	0,0333				

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