



Sunrise

Friday, 09 March 2018

KBC Sunrise Market Commentary

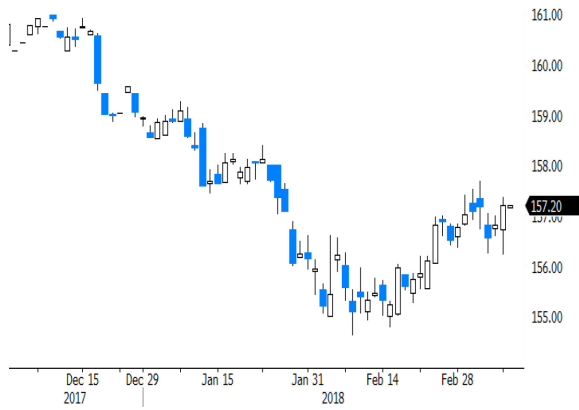
Markets

- Yesterday, German bunds showed quite some sharp intraday swings.** Yields jumped up to four basis points higher after the publication of the ECB policy statement. **The ECB omitted its easing bias** as it didn't repeat its intention to increase bond buying if necessary. However, **the rise in yields was reversed during the ECB press conference** as ECB's Draghi indicated that a big step to policy normalization was still quite some distance away. For an in depth analysis of the ECB decision ([see our KBC flash report.](#)) At the end of the day, German yields even declined between 1.6bp (2yr) and 2.7 bp (10-y). On the intra-EMU bond markets, yield spread chances versus Germany mostly narrowed slightly further with Greece (-6bp) outperforming and Italy (+6bp) underperforming. **The swings in US Treasuries were much more modest.** The US yield curve bear flattened with yields declining up to 2.8 bp at the long end of the curve. Today, global political developments will continue to have an important place in the headlines. **However, global bond traders will turn their focus to the US payrolls.** A solid report is again expected. January job growth is expected at 205 000. The unemployment rate is expected to decline to a cycle low of 4.0%. After last month's rise & market reaction, **wage growth data (expected at 0.2% M/M and 2.8% Y/Y from 2.9%) will take center stage.** Of late, the rise in US yields took a breather. However, another positive surprise, especially from the wage data, will rekindle market expectations that the pace of Fed rate hikes might accelerate later this year.
- Yesterday, the dollar initially gained modest ground against the euro and yen. **The euro jumped temporary higher as the ECB dropped its indication that it could still raise the amount of asset purchases if needed.** However, **the euro strength was short-lived** as president's Draghi's assessment at the press conference remained soft. In line with EMU yields, the euro reversed initial gains even closed the day substantially lower at 1.2312. Intra-day market reaction also suggests **that markets were positioned long euro going into the ECB decision.** USD/JPY closed the session little changed at 106.23 as markets still pondered the impact Trump's import tariffs. This morning, the BOJ as expected left its policy unchanged. A positive risk sentiment keeps USD/JPY better bid. Later today, the focus for USD trading will also shift to **the US payrolls report.** Yesterday's price action in EUR/USD suggests that some further downside in the pair is possible in case of a good US payrolls report. **The ECB indicating no substantial change in its policy communication anytime soon might also cap the upside of the euro overall.** A break of EUR/USD 1.2155 is still need to improve the technical picture of the dollar against the euro.
- Sterling trading was mostly driven by global factors.** EUR/GBP mostly followed the intraday swings of the euro. In line with EUR/USD, the pair traded marginally lower on a daily basis. Today, the UK trade balance data, production and construction output will be published. We expect the data to be only of intraday significance. The broader euro moves might again be the driver for EUR/GBP trading.

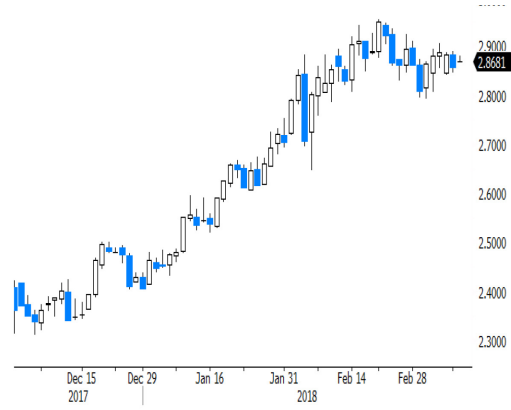
News Headlines

- U.S. President Trump agreed to meet North Korean leader Kim Jong Un.** The announcement followed after South Korea's National Security Office head Chung Eui-yong told reporters at the White House that Kim had committed to denuclearisation and to suspending nuclear and missile tests. The meeting is expected to take place in May.
- The BOJ keep its policy unchanged as expected, maintaining its commitment guiding short-term interest rates at minus 0.1 percent and the 10-year government bond yields around zero percent.** "Japan's economy is expanding moderately, with a virtuous cycle from income to spending operating," the BOJ said in its policy statement.
- Consumer inflation in China accelerated to 2.9% Y/Y in February,** the highest since November 2013. Only a rise to 2.5% (from 1.5%) was expected. However, the sharp upswing was largely due to higher food prices related to the China Lunar New Year holidays. **PPI inflation decelerated** to 3.7% Y/Y from 4.3% Y/Y, the slowest pace in 15 months.

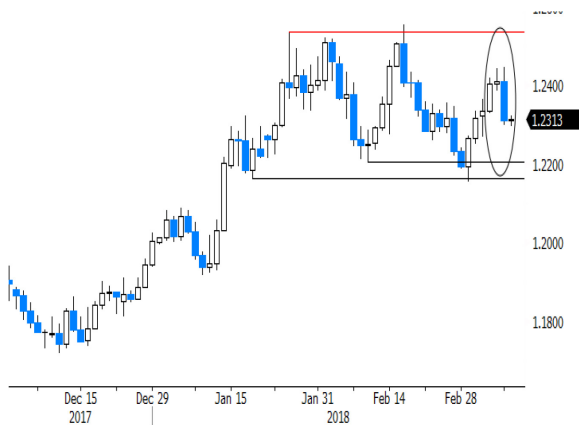
Graphs & Table



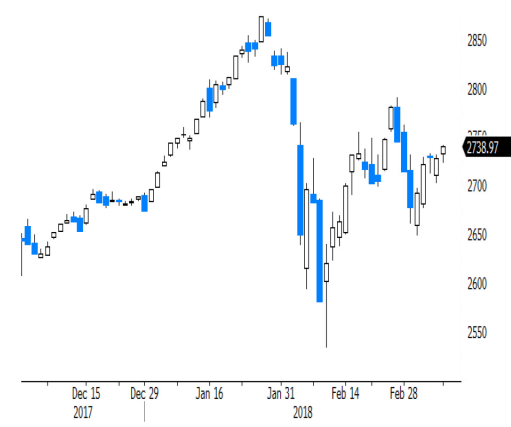
Bund remains well bid as a big step to ECB policy normalisation is still quite some distance away:



US 10-y yield in consolidation modus. Will payrolls again break the stalemate :



EUR/USD declines even as ECB leaves its easing bias. Will payrolls trigger more follow-through price action?



S&P 500 : (US) equites largely ignore trade war debate

Calendar

Friday, 9-March		Consensus	Previous
US			
-14:30	Change-in-Nonfarm-Payrolls-(Feb)	205k	200k
-14:30	Two-Month-Payroll-Net-Revision-(Feb)	--	--
-14:30	Change-in-Private-Payrolls-(Feb)	205k	196k
-14:30	Change-in-Manufacturing-Payrolls-(Feb)	15k	15k
-14:30	Unemployment-Rate-(Feb)	4.0%	4.1%
-14:30	Underemployment-Rate-(Feb)	--	8.2%
-14:30	Average-Hourly-Earnings-MoM-/YoY-(Feb)	0.2%/2.8%	0.3%/2.9%
-14:30	Average-Weekly-Hours-All-Employees-(Feb)	34.4	34.3
-14:30	Labor-Force-Participation-Rate-(Feb)	62.7%	62.7%
-16:00	Wholesale-Trade-Sales-MoM-(Jan)	--	1.2%
-16:00	Wholesale-Inventories-MoM-(Jan-F)	0.7%	0.7%
Canada			
-14:30	Net-Change-in-Employment-(Feb)	21.0k	-88.0k
-14:30	Unemployment-Rate-(Feb)	5.9%	5.9%
Japan			
--	BOJ-10-Yr-Yield-Target	A-0.000%	0.000%
--	BOJ-Policy-Balance-Rate	A-0.100%	-0.100%
-00:30	Overall-Household-Spending-YoY-(Jan)	A-2.0%	-0.1%
-00:50	Money-Stock-M3-YoY-(Feb)	A-2.8%	2.9%
-01:00	Labor-Cash-Earnings-YoY-/Real-Cash-Earnings-(Jan)	0.7%/-0.9%	0.7%/-0.5%
China			
-02:30	PPI-YoY-(Feb)	A-3.7%	4.3%
-02:30	CPI-YoY-(Feb)	A-2.9%	1.5%
UK			
-10:30	Visible-Trade-Balance-GBP/Mn-(Jan)	-£11900	-£13576
-10:30	Industrial-Production-MoM-/YoY-(Jan)	1.5%/1.9%	-1.3%/0.0%
-10:30	Manufacturing-Production-MoM-/YoY-(Jan)	0.2%/2.8%	0.3%/1.4%
-10:30	Construction-Output-SA-MoM-/YoY-(Jan)	-0.5%/-1.0%	1.6%/-0.2%
-13:00	NIESR-GDP-Estimate-(Feb)	0.4%	0.5%
Germany			
-08:00	Trade-Balance-(Jan)	18.1b	18.2b
-08:00	Current-Account-Balance-(Jan)	17.2b	27.8b
-08:00	Exports-SA-MoM-/Imports-SA-MoM-(Jan)	0.3%/-0.1%	0.0%/1.1%
-08:00	Industrial-Production-SA-MoM/YoY-(Jan)	0.6%/6.0%	-0.6%/6.5%
-08:00	Labor-Costs-SA-QoQ-/WDA-YoY-(4Q)	--/--	0.7%/2.2%
France			
-08:45	Industrial-Production-MoM-/YoY-(Jan)	-0.3%/3.8%	0.5%/4.5%
Italy			
-10:00	PPI-MoM-/YoY-(Jan)	--/--	0.0%/2.2%
Norway			
-08:00	CPI-MoM-/YoY-(Feb)	0.7%/1.8%	-0.1%/1.6%
-08:00	CPI-Underlying-MoM-/YoY-(Feb)	0.7%/1.3%	-0.8%/1.1%
Spain			
-09:00	Industrial-Production-MoM-/SA-YoY-(Jan)	0.0%/5.1%	0.9%/6.1%
Events			
-18:40	Fed's-Rosengren-Speaks-on-Outlook		
-18:45	Fed's-Evans-Speaks-on-Monetary-Policy		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	2.86	-0.03	US	2.25	0.00	DOW	24895.21	93.85	
DE	0.63	-0.03	DE	-0.56	-0.02	NASDAQ	7427.946	31.30	
BE	0.90	-0.03	BE	-0.51	0.00	NIKKEI	21469.2	101.13	
UK	1.47	-0.02	UK	0.81	0.00	DAX	12355.57	110.21	
JP	0.05	0.00	JP	-0.15	0.00	DJ euro-50	3413.28	35.92	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0.07	2.66	1.17	Eonia	-0.3610	0.0020	Libor-1	1.7179	0.0000
5y	0.45	2.76	1.36	Euribor-1	-0.3710	0.0000	Libor-3	2.0573	0.0000
10y	1.06	2.89	1.58	Euribor-3	-0.3270	0.0000	Libor-6	2.2455	0.0000
				Euribor-6	-0.2720	0.0000			
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.2312	-0.0099	EUR/JPY	130.79	-0.85	CRB	193.66	-0.78	
USD/JPY	106.23	0.16	EUR/GBP	0.8915	-0.0016	Gold	1321.70	-5.90	
GBP/USD	1.3811	-0.0085	EUR/CHF	1.1711	0.0002	Brent	63.61	-0.73	
AUD/USD	0.7789	-0.0036	EUR/SEK	10.1815	-0.0328				
USD/CAD	1.2896	-0.0016	EUR/NOK	9.6537	-0.0312				

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Contacts

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

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