Sunrise

Monday, 11 December 2017

Rates: Consolidation ahead of Fed meeting

Today's eco calendar is empty apart from the start of the US refinancing operation. That could spark some underperformance of the US Note future vs the Bund, but we expect trading to occur within existing (sideways) ranges ahead of Wednesday's Fed meeting. Volumes are expected to decline. Risk sentiment is a wildcard.

Currencies: USD awaiting guidance from the Fed after soft wage data

The USD rebound slowed on Friday as US wage data outweighed strong job growth. More USD consolidation might be on the cards as investors await Wednesday's Fed policy statement. USD/JPY resilience might be an indication that dollar sentiment isn't too bad.

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 closed around 0.5% higher on Friday** with a new closing high for the S&P 500 after a solid US paryolls report. **Asian stock markets record gains as well this morning with China outperforming (+1%).**
- The **White House** is preparing to roll out a long-delayed infrastructure rebuilding plan in January, as President Trump's advisers bet that voters want a **$1 tn road-and-bridge-building plan**—even though it is opposed by some lawmakers
- **China's producer price inflation slowed to a four-month low in November** (5.8% Y/Y) as factory activity softened due to the government's efforts to curb pollution, cooling demand from factories for raw materials.
- **New Zealand's government named pension fund chief Adrian Orr as the new governor of the nation's central bank,** triggering a rally in the local dollar as markets prepared for changes to the monetary policy mandate.
- **OPEC and its global allies including Russia may end their production cuts before 2019** if the crude market re-balances by June, Kuwait's oil minister said.
- **President Trump plans to deliver his closing argument for the proposed Republican tax overhaul in a speech on Wednesday** as House and Senate negotiators hammer out differences between their versions of the bill.
- **Today's eco calendar** is empty. The US starts its mid-month refinancing operation with a $24 bn 3-yr Note and a $20 bn 10-yr Note auction.

Rates

Volatility after payrolls short-lived

Disappointing earnings draw traders' attention

	US yield	-1d
2	1,79	-0,01
5	2,14	0,00
10	2,38	0,01
30	2,77	0,01

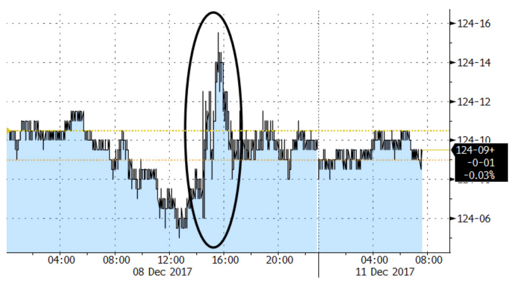
	DE yield	-1d
2	-0,74	0,02
5	-0,37	0,02
10	0,31	0,01
30	1,14	0,01

Global core bonds trading showed some intraday volatility on Friday, but eventually closed near opening levels. Weakness ahead of the US payrolls on positive risk sentiment was undone after the US labour market report. Net job creation remained strong and the unemployment rate remains at the lowest level since 2000, but earnings disappointed. The market reaction proves sensitivity to price/inflation data. The scale of the move remained limited though with Wednesday's Fed meeting looming. Investors don't want to be wrong-footed by a Fed who still intends to hike rates three times next year.

In a daily perspective, German yields increased by 0.8 bps (30-yr) to 2.3 bps (5-yr). The German 10-yr yield tested 0.3% support for a third straight day, but a break didn't occur. Changes on the US yield curve ranged between -0.8 bps (2-yr) and +1.3 bps (10-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany ended unchanged in the European (semi-)core. Peripheral spreads narrowed by 2 to 4 bps with Greece continuing to outperform (-28 bps) following a successful debt swap at the end of November.

Fed and ECB meetings colour trading later this week

Today's eco calendar is empty. The US Treasury starts its mid-month refinancing operation with a $24 bn 3-yr Note and a $20 bn 10-yr Note auction. The WI's are trading currently around 0.69% and 2.39%. **The calendar heats up later this week. The Fed meets on Wednesday and is expected to hike its policy rate a third time this year by 25 bps to 1.25%-1.5% which completely discounted in markets.** The new "dot plot" will receive most attention. We expect the central bank to stick to its intention to hike rates three times next year. Since September, (rate) markets for the first time this hiking cycle started aligning with the Fed's scenario. Past years, they were positioned much more dovish which proved right in 2015 and 2016. The market implied probability of a next rate hike (to 1.5%-1.75%) in March already stands at 60% with two hikes already discounted for 2018. **The ECB meets on Thursday.** An unchanged policy is expected after the announced decisions on APP in October. Draghi will face some questions on the future of the central bank's forward guidance as more and more ECB-governors question the need to link APP to the inflation outlook rather than monetary policy as a whole. However, he'll probably continue sounding dovish, pointing to lack of underlying inflation pressure. New growth and CPI forecasts (including 2020) could be crucial in determining the market reaction, if any.



US Note future (intraday): volatility after payrolls, but eventually return to opening levels

German 10-yr yield tests 0.3% support for a third straight day.

Sunrise Market Commentary

Monday, 11 December 2017

R2	165,18	-1d
R1	163,67	
BUND	163,42	-0,17
S1	161,49	
S2	159,78	

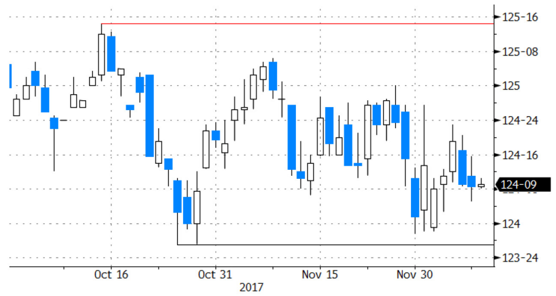
Consolidation ahead of Fed meeting?

Risk sentiment is positive in Asia with China outperforming (1%). The US Note future and Brent crude are trading steady, suggesting a neutral opening for the Bund.

Today's eco calendar is empty apart from the start of the US refinancing operation. That could spark some underperformance of the US Note future vs the Bund, but **we expect trading to occur within existing (sideways) ranges ahead of Wednesday's Fed meeting** (see above). Volumes are expected to decline. Risk sentiment is a wildcard.

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!): More consolidation ahead of the Fed

Currencies

USD in wait-and-see modus ahead of the Fed?

Soft wage data blocked further USD gains

Positive risk sentiment kept the dollar near recent highs against the euro and the yen on Friday ahead of the US payrolls. US job growth remained strong, but wages again disappointed. With markets giving more weight to prices rather than activity data, the dollar declined off the intraday peak. EUR/USD closed the session at 1.1773, unchanged from Thursday. USD/JPY was more resilient and reversed most of the post-Payrolls decline. The pair finished the session 113.48.

Dollar trading mixed to slightly lower even as risk sentiment remains constructive

Kiwi dollar rebounds on appointment of new RBNZ governor

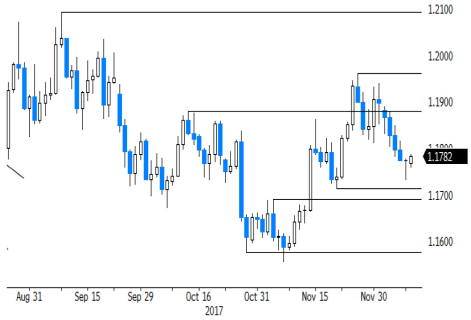
Asian equities mostly trade with gains of 0.5% to 1.0%+, extending last week's rebound. Volumes are below average. The (trade-weighted) dollar is cautiously ceding ground as investors are building in some caution ahead of Wednesday's Fed policy announcement. USD/JPY set a minor ST top this morning, but currently hovers again in the mid 113 area. EUR/USD extends its post-Payrolls' rebound and trades in the 1.1780 area. The New-Zealand government appointed Adrian Orr as new RBNZ governor. His appointment eased recent fears that the RBNZ would give less weight to the inflation target. NZD/USD rebounded to trade in the 0.69 area.

Eco calendar is uninspiring today

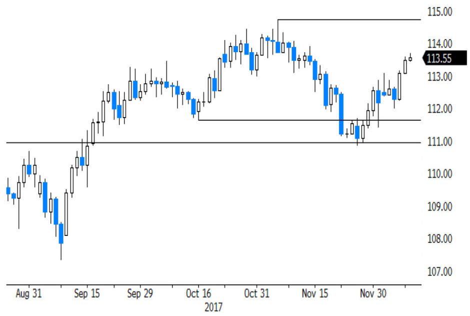
Dollar to shift in wait-and-see mode ahead of the Fed meeting?

There are no data in the US today. EMU data are second tier and probably will have less impact on (global) FX trading. T**he eco calendar is better filled later this week** with the US price data (CPI Wednesday) and retail sales (Thursday). In EMU sentiment data including the December PMI's (Thursday) will be published. **However, the focus will be on the Fed's policy decision (Wednesday evening) and, to a lesser extent, on the ECB meeting and press conference (Thursday).** Analyst expectations on the Fed rate hike intentions in 2018/2019 are quite divided/diffuse. Recent relatively soft price/wage data make some market participants wonder whether the Fed should consider a slightly slower pace of rate hikes. **We don't think that this will be the case, but uncertainty on low wages/prices might prevent further USD gains going into Wednesday's Fed policy decision. Last week,** we had a cautious positive bias on the dollar, but the payrolls were not strong enough to sustain the ST USD rebound. In this context we assume EUR/USD to consolidate in the 1.1730/1.1960 area. USD/JPY resilience might be an indication that underlying dollar sentiment is not too bad. US politics remains a wildcard for USD trading (more progress on a tax bill?).

R2	1,2225	-1d
R1	1,2092	
EUR/USD	1,1773	0,0000
S1	1,1554	
S2	1,1331	



EUR/USD:USD rebound blocked after soft US wage data



USD/JPY trending higher within MT consolidation pattern

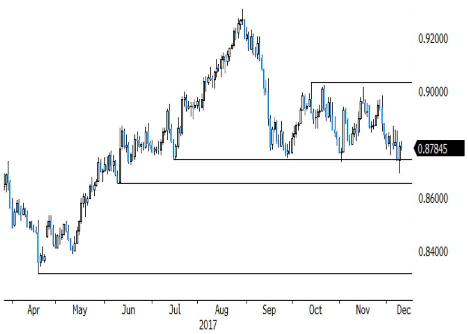
From a technical point of view: EUR/USD set a post-ECB low mid-November, but the dollar's momentum wasn't strong enough. EUR/USD settled in a directionless sideways consolidation pattern in the 1.18/19 area. A return below 1.1713 would signal an improvement in the ST USD momentum. However, the payrolls were not able to force this break. So, EUR/USD still gives no clear directional signal. 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. Over the previous two weeks, the pair succeeded a nice rebound, calling off the downside alert and returning to **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.**

EUR/GBP test of 0.8693 support rejected

R2	0,9307	-1d
R1	0,9033	
EUR/GBP	0,8792	0,0054
S1	0,8690	
S2	0,8657	

Sterling developed some kind of buy-the-rumour, sell-the-fact reaction Friday. The UK currency rallied on Thursday evening and early on Friday on headlines that the **EU and the UK agreed to move to the second stage of the Brexit negotiations. Sterling touched a ST top during (cable) or soon after (GBP/EUR) the press conference of EU Juncker and UK PM May, but markets soon realized that the hard work still has to be done.** The sterling rally ran into resistance and the UK currency returned some of the earlier gains. The trade deficit was smaller than expected, but data were not the focus of markets. EUR/GBP finished the session at 0.8792 (from 0.8737). Cable closed the day at 1.3390.

During the weekend, political analyses from different parties involved in last week's agreement suggested that further progress in the negotiations will remain difficult. **Regarding the eco data, Rightmove House prices this morning showed a further cooling in the UK prices** (-2.6% M/M and 1.2% Y/Y). Sterling is gaining a few ticks this morning. Friday's agreement/statement is buying the UK some time as the start of negotiations on new trade relationship is/was urgent. In this respect it can be considered as slightly sterling supportive. **However, Friday's GBP price action indicates that markets are well aware that the big works still has to be done. In this context we expect more ST consolidation of EUR/GBP in the 0.87/0.89 area.** EUR/GBP 0.8693 (62% retracement) support was tested on Friday, but the test was rejected. We assume that this level won't be easy to break short-term.



EUR/GBP downside test rejected despite 'Brexit deal'

GBP/USD: sterling drifting of recent top

Calendar

Monday, 11 December		Consensus	Previous
Japan			
00:50	BSI Large All Industry QoQ (4Q)	A: 6.2	5.1
00:50	BSI Large Manufacturing QoQ (4Q)	A: 9.7	9.4
00:50	Money Stock M3 YoY (Nov)	A: 3.4%	3.4%
07:00	Machine Tool Orders YoY (Nov P)	A: 46.9%	49.8%
China			
11DEC-18DEC	Foreign Direct Investment YoY CNY (Nov)	--	5.0%
11DEC-15DEC	Money Supply M2 YoY (Nov)	8.9%	8.8%
11DEC-15DEC	New Yuan Loans CNY (Nov)	800.0b	663.2b
11DEC-15DEC	Aggregate Financing CNY (Nov)	1250.0b	1038.7b
France			
08:30	Bank of France Ind. Sentiment (Nov)	107	106
Italy			
10:00	Retail Sales MoM / YoY (Oct)	0.0%/--	0.9%/3.4%
Belgium			
11DEC-20DEC	Budget Balance YTD (Nov)	--	-7.189b
Norway			
08:00	CPI MoM / YoY (Nov)	0.2%/1.2%	0.1%/1.2%
08:00	CPI Underlying MoM / YoY (Nov)	0.0%/1.2%	0.3%/1.1%
Events			
10:00	ECB's Nowotny Presents Austria Financial Stability Report		
17:30	US to Sell $24 bn 3-yr Notes		
19:00	US to Sell $20 bn 10-yr Notes		

10-year	Close	-1d		2-year	td	-1d	Stocks	Close	-1d
US	2,38	0,01		US	1,79	-0,01	DOW	24329,16	117,68
DE	0,31	0,01		DE	-0,74	0,02	NASDAQ	6840,081	27,24
BE	0,51	0,02		BE	-0,60	0,02	NIKKEI	22938,73	127,65
UK	1,28	0,03		UK	0,51	-0,01	DAX	13153,7	108,55
JP	0,05	0,00		JP	-0,15	-0,01	DJ euro-50	3591,45	18,32
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,07	2,09	0,94	Eonia	-0,3290	-0,0020			
5y	0,20	2,20	1,10	Euribor-1	-0,3690	-0,0030	Libor-1	1,4444	0,0125
10y	0,81	2,39	1,35	Euribor-3	-0,3260	-0,0010	Libor-3	1,5488	0,0127
				Euribor-6	-0,2710	0,0000	Libor-6	1,7299	0,0074
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1773	0,0000		EUR/JPY	133,6	0,47	CRB	185,02	0,54
USD/JPY	113,48	0,39		EUR/GBP	0,8792	0,0054	Gold	1248,40	-4,70
GBP/USD	1,339	-0,0084		EUR/CHF	1,1691	-0,0017	Brent	63,40	1,20
AUD/USD	0,7509	-0,0002		EUR/SEK	9,9426	-0,0479			
USD/CAD	1,2848	-0,0006		EUR/NOK	9,765	-0,0256			

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