



Sunrise

Monday, 10 October 2016

Rates: Slow start to trading week, but key events follow

We expect sentiment-driven, range-bound action today as Japanese and US bond markets are closed, while the EMU eco calendar only contains second-tier data. Later this week, attention turns back to the US with FOMC Minutes, retail sales and a speech by Fed chairwoman Yellen. These events could trigger a new test of key US resistance levels.

Currencies: Dollar profit-taking after soft payrolls report

The dollar was well bid going into the payrolls, testing/nearing first resistance against the euro and the yen. However, the payrolls were not enough to support further sustained USD gains. EUR/USD and USD/JPY returned in the established ranges. Sterling is still looking for a new equilibrium after Friday's flash crash.

Calendar

Headlines

S&P	→
Eurostoxx50	↓
Nikkei	→
Oil	→
CRB	→
Gold	↓
2 yr US	→
10 yr US	→
2 yr EMU	→
10 yr EMU	↗
EUR/USD	→
USD/JPY	↓
EUR/GBP	↗

- **US equities** closed with modest losses as the payrolls report was a mixed bag and too close to expectations. **Asian markets trade narrowly mixed** with China outperforming after last week closure and Japan's close today.
- The **second US presidential debate** turned to be a rough exchange of personal remarks on Trump's behaviour against women. Candidates were on a different page on a number of more important topics. It looked like Trump performed better than during the first debate. We didn't get any polls yet about how the electorate saw the debate.
- **Euro-area finance ministers** will probably discuss Greek debt issue and second review of Greek program at their last Eurogroup meeting of 2016 on December 7.
- The **Chinese September Caixin PMI business sentiment** nearly stabilized at 52 (from 52.1 previously). The composite index fell to 51.4 from 51.8 previously.
- **Fitch** affirmed the **Swiss AAA rating**, with stable outlook. It sees growth averaging 1.6% in 2016-18 and the current account surplus averaging 10.7%. Similarly Fitch confirmed the **Norwegian AAA rating** and stable outlook with growth forecasts at 0.8% in 16, 1.6% in 2017 and 2% in 2018. It hails also the robust policy framework.
- The Fed chose to wait for more signs of progress on inflation, employment goals, **Vice Fed chair Fischer** said, keeping the line of Yellen's post-FOMC press conference. He called the decision a close call. **ECB Draghi said the ECB is to reach its inflation goal by the end 2018 or early 2019.**
- **Today, the US Bond and Japanese overall markets are closed.** In the euro area, only second tier national releases are published, while the Euro group meets.

Rates

Sterling flash crash leaves traces on UK and German bond markets

Payrolls cause volatility but no firm direction

US Treasuries yield resistances hold

First fissure in technical picture Bund future

Payrolls: good, but not good enough: bonds cannot find firm direction

On Friday, global core bonds initially lost ground on the back of suffering UK gilts. A close-to-consensus US payrolls report however triggered some profit taking on shorts especially in the US amid volatile trading ahead of the long weekend. Core bonds traded with a downward bias going into the US payrolls report. UK Gilts took the heaviest beating on the back of rising UK inflation expectations following sterling's (flash) crash and closed 5 (2-yr) to 9.9 bps (10-yr) higher. The 5y5y UK forward inflation increased from 3.3% to 3.65% over the past weeks (see graph). US Treasuries managed to close the session slightly higher. The key technical yield resistances for 5- (1.27%) 10- (1.756%) and 30-year yield (2.5%) held. In a daily perspective, the German yield curve bear steepened with yields 0.5 bps (2-yr) to 4.9 bps (30-yr) higher. Changes on the US yield curve vary between -2.3 bp (5-yr) and -0.30 bps (30-yr). The outperformance of the 5-year reflects slight changes markets expectations for Fed policy going forward.

On intra-EMU bond markets, 10-yr yield spread changes versus Germany are nearly unchanged with Spain outperforming (-3 bps) while Portugal underperforming (+3 bps) in the wake yesterday's DBRS comments (worries about medium term outlook). The next review is scheduled in two weeks and a downgrade would exclude Portuguese bonds from the ECB's QE programme.

	US yield	-1d
2	0,8382	-0,0114
5	1,26	-0,0147
10	1,7234	-0,0070
30	2,4554	0,0107

	DE yield	-1d
2	-0,6650	0,0010
5	-0,4910	0,0110
10	0,0120	0,0170
30	0,6389	0,0383

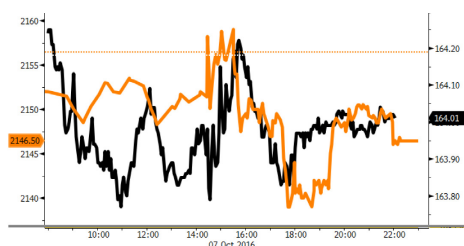
US & Japan closed; calendar unattractive

Today, US markets are closed for Columbus Day., while also Japanese markets are closed. The presidential debate hadn't a big immediate impact on markets. The Euro zone calendar contains only some second tier releases (French business sentiment, Italian and Greek production) that usually don't affect overall markets. Euro area Finance Ministers meet in Luxemburg and will amongst other look at progress Greece made on its bail-out conditions. In the evening ECB Visco and Villeroy speak. Later this week, various central bankers (ECB/Fed...) speak with special attention for the speech of Yellen on Friday evening. The eco calendars is thin. In the Eurozone, the German ZEW on Tuesday and the production on Wednesday are up for release, but that aren't strong market movers. The US eco calendar becomes only interesting on Friday with the US retail sales and PPI for September and Michigan consumer sentiment for October.

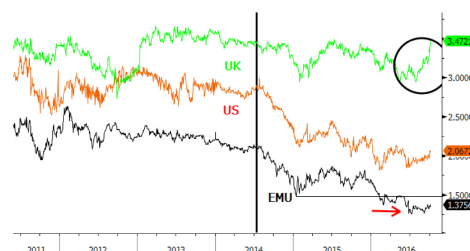
Unattractive calendar today

Presidential debate will have little impact

Eurogroup meeting to go by little much fuss?



Bund future (black) and S&P (orange) intraday: Bund first down in sympathy with gilts, later on volatility surrounding US payrolls.



Inflation expectations 5yr/5yr forward (swap): Sterling hammering reflecting in higher inflation expectations and big losses gilts. .

Busy supply calendar

R2	167	-1d
R1	166,36	
BUND	164,01	0,2300
S1	163,72	
S2	163	

This week's scheduled EMU bond supply comes from the Netherlands, Austria, Ireland and Italy. Tomorrow, the Dutch debt agency taps the on the run 10-yr DSL (€1.5-2.5B 0.5% Jul2026). The Austrian treasury sells the on the run 10-yr RAGB (0.75% Oct2026) and 30-yr RAGB (1.5% Feb2047) for a combined €1.32B. On Thursday, Italy and Ireland hold auctions. Lines and amounts on offer still need to be determined, but in Italy it will probably be 3-yr, 7-yr and 15-yr BTP taps. This week's auctions will be supported by a €16B German redemption and a €4B Portuguese one.

The US Treasury holds its mid-month refinancing operation on Wednesday with a combined \$24B 3-yr Note and a \$20B 10-yr Note auction. On Thursday, the US Treasury holds a \$12B 30-yr Bond auction.

US absent and thin calendar: sentiment-driven trading

Overnight, Chinese equity markets outperform in a catch-up move following last week's closure. Japan, Hong Kong and Taiwan are closed today and other stock markets trade rather mixed. The US Note future trades stable, suggesting a neutral opening for the Bund.

Today's EMU calendar contains only second tier eco data and US markets are closed for Columbus Day, suggesting a range-bound, sentiment-driven Bund session.

Technically, key levels in US yield terms held after the payrolls (5-yr: 1.27%, 10-yr: 1.75%, 30-yr: 2.50%). **The US Note future failed to break below the lower bound of the 129-26/130-01+ to 132-05 range.** Ahead of Wednesday's FOMC Minutes and Friday's Yellen speech & US retail sales, we think that these levels will hold.

The Bund fell back in that longstanding range and dropped below the 164.29 level (minor support) which opens the way for a return to the range bottom at 163. Rumours about the end of an era of unprecedented monetary easing could become run-of-the-mill in the run-up to the October/December ECB meetings and cap the topside in the Bund market.



German Bund: back within longstanding sideways channel after ECB QE tapering rumours, but risk for a drop to range bottom increases



US Note future: No break below key support on decent payrolls

Currencies

Dollar retruns Thursday's gains post-Payrolls

On Friday, global currency markets had to digest the sterling flash crash from earlier in the morning in Asia. At the same time, investors looked forward to the US payrolls. However, at the end of the day, the picture remained a bit diffuse. Sterling continued to trade volatile, but with modest impact on other cross rates. The payrolls were marginally weaker than expected. The dollar ceded most of Thursday's gains as core bond yields declined and as interest rate differentials between the US and Europe narrowed again a few basis points. EUR/USD closed the session at 1.1201 (from 1.1151). USD/JPY finished at 102.98 (from 103.95).

The US payrolls were not too bad, but not good enough for the dollar to maintain its intra-week gains

Dollar trading stable in thin market conditions

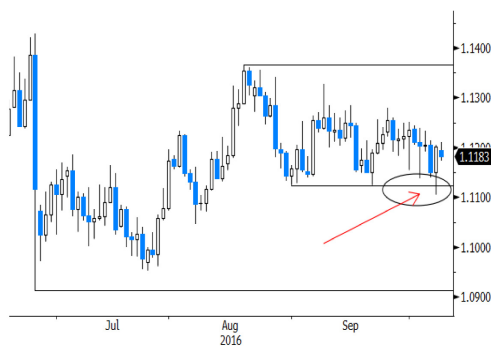
Yuan declines substantially as Chinese investors return to the market

R2	1,1366	-1d
R1	1,1279	
EUR/USD	1,1183	0,0061
S1	1,1046	
S2	1,0952	

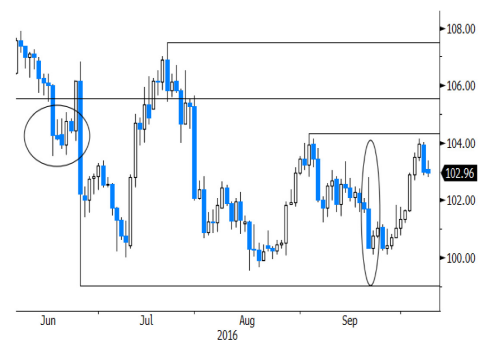
Uneventfull calendar suggests order-driven sideways trading

Overnight, Asian markets show a mixed picture. Chinese markets reopen after the Golden week holidays. Japanese markets are closed. Most other regional indices show modest gains. The yuan trades north of USD/CNY 6.70, substantially weaker than the levels seen before holidays. Part of the decline is probably due to dollar strength. Even so, markets are eager to see whether the PBOC will allow a significant weakening beyond this 6.70. The debate between US presidential candidates Trump and Clinton didn't yield much high profile news for global trading. EUR/USD hovers close to, marginally below, the 1.12 barrier. In thin trading conditions, USD/JPY trades with a slight negative bias this morning. The pair is currently changing hands in the 102.90 area.

Today, US markets are closed for Columbus Day. Japanese markets are also closed. The **Euro zone calendar contains only some second tier releases** (French business sentiment, Italian and Greek production) that usually don't affect overall markets. Euro area Finance Ministers meet in Luxemburg and in the evening. ECB's Visco speaks in NY). **During the week**, various central bankers speak with special attention for the speech of Yellen on Friday evening. The **eco calendars are thin**. In the Euro zone, the German ZEW on Tuesday and the production on Wednesday are up for release. The **US eco calendar becomes only interesting on Friday** with the retail sales and PPI for September and the Michigan consumer sentiment for October. For today, more sideways order driven trade might be in the cards for EUR/USD and USD/JPY traders.



EUR/USD: downside test rejected



USD/JPY: returning lower in the range

Last week, a rise in core bond yields weakened the yen. The picture of EUR/USD was a bit diffuse. Higher US yields were counterbalanced by a rise in European yields due to ECB tapering speculation. This initially blocked the downside of the euro. USD strength finally prevailed in the run-up to the US payrolls. EUR/USD tested/dropped temporary below the 1.1123 support. However, the payrolls were not strong enough trigger a sustained further USD rally. EUR/USD returned to the 1.12 pivot. The price action of the dollar after the payrolls is slightly disappointing for USD bulls. Even so, we maintain the view that downside of the dollar looks well protected as long as the market implied probability of a Fed rate hike remains at current levels. The ECB tapering debate makes USD gains against the euro less easy, but we doubt that the ECB will announce an aggressive tapering of its asset buying anytime soon. **USD/JPY was in the defensive immediately after the BOJ meeting, but a rise in US/European yields put the yen under downward pressure. USD/JPY came within reach of 104.32 resistance, but a real test didn't occur. A soft payrolls report pushed the pair back lower in the 99.01/104.32 trading range. We stay cautious on sustained USD/JPY gains beyond the 104.32 resistance.**

Sterling looking for a new equilibrium

R2	0,915	-1d
R1	0,9084	
EUR/GBP	0,9018	0,0089
S1	0,8725	
S2	0,8333	

On Friday, sterling traders tried to assess the meaning of the sterling flash crash and were in search of new anchor points. Early in European dealings, EUR/GBP settled in the lower half of the 0.89 big figure. Cable found an equilibrium in the 1.24 big figure. The UK production data were below consensus and the trade deficit was bigger than expected. At first, it looked as if these data wouldn't unsettle sterling. However, late in the morning session, nervousness resurfaced. EUR/GBP filled offers north of 0.91. Cable dropped temporary to 1.2228. **In the afternoon**, the focus turned the payrolls and the USD. The slightly softer dollar overall also helped to stabilize sterling, at least temporary. Cable closed the session 1.2434. EUR/GBP finished the day at 0.9005.

Overnight, EUR/GBP is hovering in the low 0.90 area. Cable trades slightly softer in the 1.24 area. There are no important eco data in the UK and with US markets closed for Columbus day, trading might be rather thin and order driven. Sterling traders will still look for a new ST equilibrium after the flash crash. Friday's price move ('rebound') suggests that a retest of flash crash extremes won't occur anytime soon. Even so, we continue to avoid sterling long exposure as long as the debate on a hard Brexit persists/intensifies.



EUR/GBP: stabilizing in the 0.90 area after flash crash?



GBP/USD: off the multi-year low, but picture remains fragile

Calendar

Monday, 10 October		Consensus	Previous
Germany			
08:00	Trade Balance (Aug)	19.5b	19.5b
France			
08:30	Bank of France Bus. Sentiment (Sep)	--	98
Italy			
10:00	Industrial Production MoM YoY (Aug)	-0.1%/-0.3%	0.4% / -0.3%
Greece			
11:00	Industrial Production YoY (Aug)	2.0%	4.1%
11:00	CPI – EU Harmonized YoY (Sep)	0.6%	0.4%
Norway			
08:00	CPI MoM YoY (Sep)	0.6%/4%	-0.5% / 4.0%
08:00	CPI Underlying MoM YoY (Sep)	0.7/3.2%	-0.5% / 3.3%
Sweden			
08:30	SEB Housing Price Indicator		
09:30	Household Consumption MoM YoY (Aug)	--	-0.1% / 2.3%
Events			
US, Japanese and Hong Kong Markets are Closed			
15:00	Euro Area Fin. Min meet in Luxembourg (also on Greek progress in bail-out)		
15:50	Bank of England Bond-Buying Operation Results		
19:30	ECB Villeroy speaks on globalisation		
18:30	ECB's Visco Speaks in New York		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,72	-0,01	US	0,84	-0,01	DOW	18240 18240,49
DE	0,01	0,02	DE	-0,67	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,28	0,03	BE	-0,64	0,00	NIKKEI	16860 16860,09
UK	0,98	0,11	UK	0,16	0,05	DAX	10490,86 10490,86
JP	-0,06	0,00	JP	-0,26	0,00	DJ euro-50	3001 3000,57

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,349 -0,003
3y	-0,189	1,139	0,544	Euribor-1	-0,37	0,00	Libor-1 USD	0,27 0,27
5y	-0,081	1,272	0,647	Euribor-3	-0,30	0,00	Libor-3 USD	0,39 0,39
10y	0,394	1,542	0,963	Euribor-6	-0,20	0,00	Libor-6 USD	0,55 0,55

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1183	0,0060	EUR/JPY	115,12	-0,41		188,5416	1262	51,48
USD/JPY	102,95	-0,95	EUR/GBP	0,9018	0,0086	-1d	0,00	9,88	-1,08
GBP/USD	1,2396	-0,0054	EUR/CHF	1,0941	0,0022				
AUD/USD	0,7597	0,0026	EUR/SEK	9,6584	0,04				
USD/CAD	1,3253	0,0018	EUR/NOK	9,0480	0,06				

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