Sunrise

Friday, 07 July 2017

Due to National Holiday, there will be no KBC Sunrise on Monday the 10th and Tuesday the 11 th of July 2017 . Next KBC Sunrise will be published on Wednesday the 12th of July 2017.

Rates: After the Bund sell-off, is it now the T-Note future?

Yesterday, a break below key support in the Bund changed sentiment. Today attention turns to a similar support area for the T-Note future. A strong payrolls report, our favourite, may at least test the area. A break would be a strong confirmation that the trend in yields is on a firm upward trajectory. .

Currencies: Will payrolls be solid enough to put a floor under the dollar?

Yesterday, the euro outperformed as European yields broke important technical levels. Today, the focus will be on the US payrolls. We expect a solid report. If so, the dollar could receive additional interest support. The G20 and the correction on the equity markets remain wildcards for global FX trading.

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	→

- **The global equity selloff that started in Europe continued in the US** with end-of-day losses of the S&P 500 at -0.94%. Asian equities are also losing ground, but the losses are moderate given yesterday's correction on WS.
- The **June US non-manufacturing ISM improved from 56.9 to 57.4, indicating ongoing solid growth in the sector.**
- **Germany industrial production** printed at a strong 1.2 % M/M and 5.0 Y/Yin May against the April 0.7 % M/M (2.8% Y/Y) beating the consensus expectations of 0.2% M/M (4% Y/Y).
- The **Bank of Japan said it would buy an unlimited amount of bonds**, as it sought to end domestic interest rates being pushed higher by the broad sell-off in bonds. This signals the BoJ's strong commitment to yield curve control policy.
- The **four-nation Saudi bloc pledged it will take new political, economic and legal measures against Qatar** after the latter rejected the demand list of the bloc that followed a closing of the ties between Qatar and Iran.
- The main event on the **eco-calendar is the US payrolls report**. May industrial production figures will also be released for the UK. The **G-20 is a wildcard** with political tensions at high levels.

Rates

Law of gravity pulls Bund through major support

Bunds heavily sold and driven below key support.

US Treasuries followed partly, but the payrolls today avoided a similar stampede out long positions

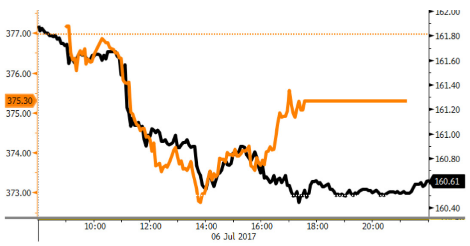
	US yield	-1d
2	1.39	-0.01
5	1.95	0.02
10	2.37	0.04
30	2.91	0.05

	DE yield	-1d
2	-0.58	0.02
5	-0.08	0.08
10	0.56	0.09
30	1.35	0.07

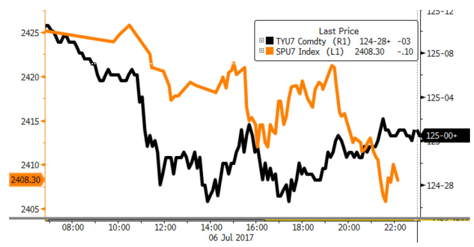
In past sessions, the Bund reached the key 161.68/58 support (neckline double top/38% retracement), but couldn't rebound sustainably. Every attempt to move away was aborted, suggesting buyers' fatigue. Yesterday, that was no longer the case. In a morning session devoid of key economic releases, the Bund future dropped below the key support, immediately attracting more selling that would last with a close at the day lows with a loss of about 130 ticks. There is no obvious trigger available to explain the break. News agencies attribute it to **a "weak" French (and Spanish) auction of long papers, but we don't buy in it after examining the results. ECB Villeroy said that "*ECB's non-standard monetary stimulus will not last indefinitely*"** and added that *"nominal interest rates, which are still particularly low today, have started to rise since autumn 2016 and are set to increase further, in line with the pace of economic recovery and inflation growth".* However, these remarks were in the market well ahead of the break at 11h. We think that the Draghi's speech last week and the BIS warning on too accommodative monetary policy fertilized the soil for today's move and comments of Villeroy at best were considered as confirmation that the monetary normalisation process is about to start in the next months. **In this respect, while we fully embrace the importance of the technical break and the re-positioning it may cause, we still like a confirmation and a weekly close above the 0.50% yield resistance and the 161.68/58 Bund support.** The US payrolls today (and the market reaction) will show us whether the break is indeed a defining moment for the European bond market. **Peripheral yield spreads** were barely affected with Ireland, Portugal and Greece even showing some (very) modest narrowing.

US Treasuries (and gilts) followed Bunds lower. The ADP report was weaker than expected and the **initial claims marginally higher than expected, but at best this allowed US Treasuries to trade sideways again. A strong non-manufacturing ISM pushed the US Treasuries back to intra-day lows, but ahead of the payrolls there was no stamina to push it below. Some short covering limited the daily losses.**

In a daily perspective, German yields increased by 2.2 (2-yr) to 9.2 bps (10-yr), the belly underperforming the wings. The key 0.50% yield resistance for the 10-year Bund was broken and similarly, the 5-yr Bund yield confirmed the break of the -0.26% and is now closing in (helped by benchmark change) on the psychological 0% yield resistance. The **US yield curve bear steepened** with yields varying from -0.8 bp (2-yr) to +5.5 bps (30-yr), limited the losses ahead of the payrolls release.



Bund future (black) and EuroStoxx (orange): Bund hammered as key support is broken and no rebound at all. Heavy volumes were traded.



US T-Note future (black) & S&P future (orange). T-note follows initially Bunds lower, but move turns sideways ahead of US payrolls and despite strong Non-manufacturing ISM..

Friday, 07 July 2017

US payrolls of crucial importance

Upside risks US payrolls. Slight upside risks unemployment rate.

AHE wage growth key element for market reaction.

The **June payrolls will be of the utmost importance and will overshadow all other releases.** The market expects a decent 177K job gain following a weak 138K in May, 174K in April and a dismal 50K in March. The ADP employment report showed increases in past months stronger, but was weaker in June with 158K instead of the expected 188K gain. **We believe that the risks for the payrolls are on the upside of expectations as the three previous months looked to be unusually low.**. The **unemployment rate could stabilised or even tick up** after a (too fast?) decline in past months. The **AHE wages** are expected to be up 0.3% M/M. We have no strong take on the wages, but a disappointment might colour the market reaction.

US Payrolls to dominate trading.

R2	165.93	-1d
R1	165.55	
BUND	160.63	-1.43
S1	161.68	
S2	160.17	

Overnight, Asian equities limit the losses compared to WS losses yesterday. The T-Note future trades with a negative bias, even as losses are contained. **We are curious to see how, after an exhaustion-like selling spree yesterday, the Bund will move ahead of the payrolls. Anyway, it will be the payrolls that decide if the technical break is confirmed (favoured).**

Regarding bond trading today, we see upside risks for the June US payrolls count. After the stronger survey evidence of this week, the payrolls could strengthen the belief that US economic growth is reaccelerating again after a period of more sluggish growth figures. This could give the Fed the opportunity to normalize its policy according to plan. We are not convinced that the strength of the headline figure will also be reflected in the wages and unemployment rate. **Regarding the T-Note future, we identify 124-12/01+ are a key support (neckline double top/62% retracement), of similar key value as the Bund support that was broken yesterday. In case of a strong report, the support might come into play. However, the distance is likely still a tad too far to break on a first attempt.** In case of a weak report, we will look to see if the Bund can stay below previous support (now resistance) at 161.68/58. Next support at 160.17 (within reach). If broken, this could point to a full retracement towards 158.89.

We hold our sell-on-upticks strategy as markets reposition for a new stage in the global monetary cycle: policy normalisation. The peak of central bank dovishness is behind us. In case of a strong report we might also see a negative reaction on the short end of the US curve and a further steepening of the German curve.

German Bund: Sell-off pushed the Bund well below the 161.68/58 support (neckline double top & 62% retracement). A confirmation of the break today would make the picture really bearish.

US Note future: Some cracks in technical picture, but the ***124/12/01+*** *key support (neckline double top & 62% retracement) may be tested if payrolls report print strong. We continue to favour the downside.*

Currencies

Solid payrolls to put a floor for the dollar?

Technical break in European yields propels euro

R2	1.1616	-1d
R1	1.15	
EUR/USD	1.1423	0.0070
S1	1.0839	
S2	1.0778	

Asian equities in cautious risk-off modus.

EUR/USD, USD/JPY and EUR/JPY supported by rise in core yields

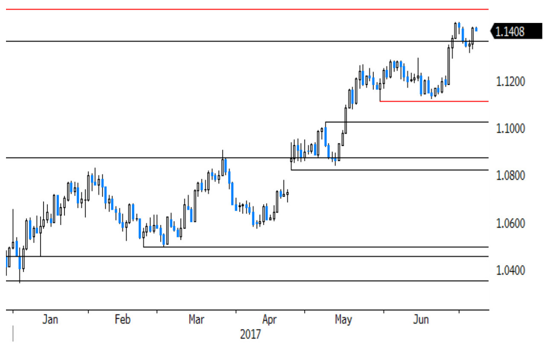
US payrolls good enough to put a floor for the dollar?

G20, equities and European markets might create some noise for global FX trading

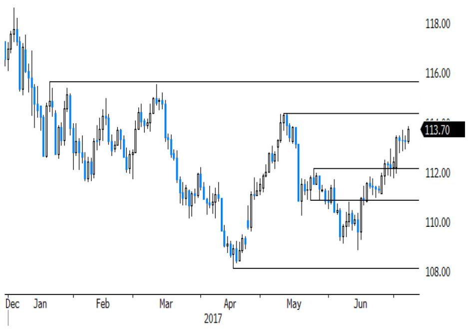
Yesterday morning, one could have logically assumed that US data would drive USD trading. It turned out different. The German 10-year yield cleared the important 0.50% mark and interest rate differentials narrowed in favour of the euro. US data were mixed, but only of second tier importance for USD trading. EUR/USD rebounded north of 1.14 and closed the session at 1.1423 (from 1.1352). USD/JPY showed no clear trend as the rise in core yields was counterbalanced by a setback in global equities. The USD/JPY hovered sideways in the lower half of the 113 big figure and closed the session at 113.22.

This morning, Asian equities are joining the correction from WS yesterday, but the losses remain modest. Yesterday, USD/JPY showed no clear trading pattern. This morning, the pair again ignores the correction in equities. The pair profits from the rise in US and European bond yields and trades in the 113.65 area. EUR/JPY also extends its uptrend and is nearing the 130 barrier. The EUR/USD also remains well bid (1.1420 area).

Today, the developments in European bond and equity markets and the G20 still deserve attention as potential drivers for global FX trading but the **US payrolls will take centre stage.** We expect the payrolls to be solid (at least meeting the consensus estimate of 178 000 net additional jobs) despite yesterday's disappointing ADP report. The average hourly earnings are expected to rise 0.3% M/M and 2.6% Y/Y. A gradual rise in wages could ease markets' doubts on the Fed normalisation process. **Such a scenario would give the US currency renewed interest rate support. Especially short-term interest rate differentials should re-widen than, which is USD supportive. If so, USD/JPY could rise further.** Sentiment on the cross rate is improving as wider interest rate differentials have become at least as important as the swings in equities/sentiment on risk. The question is whether this pattern will continue in case of a 'real' risk-off correction. **The recent high in EUR/USD should be confirmed as a solid resistance. Having said this, if we are wrong and the payrolls disappoint, the dollar remains very vulnerable.**



EUR/USD: will payrolls be strong enough to trigger a U-turn in favour of the dollar?



USD/JPY: supported by higher core yields, despite equity correction

Technical picture: USD looking for a bottom

A combination of hawkish ECB comments and weaker US eco data pushed EUR/USD above the 1.1300/66 resistance area last week with a new high at 1.1448. Next resistance is seen in the 1.15 area. LT-correction tops are coming in at 1.1616/1.1714. A break would end the long consolidation period that followed the sharp decline of EUR/USD in 2014/early 2015. Such a key area will be difficult to break for now. A return below the 1.13 area would be a first indication of a loss in upside momentum. 1.1119 is the next important support.

The USD/JPY rally ran into **resistance** in early May and the pair returned lower in the 108.13/114.37 range. The post-Fed USD rebound pushed the pair above the **112.13 correction top last week, but follow-through gains remain modest. So, the jury is still out. A sustained break above 114.37 would improve the ST-picture.**

Sterling still driven by dollar and euro moves

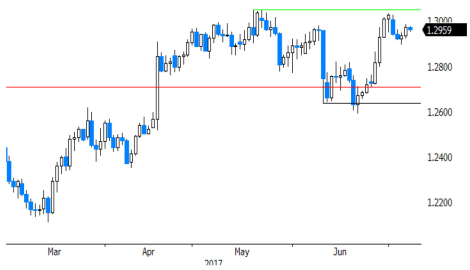
R2	0.9142	-1d
R1	0.8881	
EUR/GBP	0.8806	0.0029
S1	0.8383	
S2	0.8314	

Yesterday, there were no eco data in the UK today. So, sterling trading was driven by the overall rebound of the euro. The intraday gains of EUR/GBP remained modest though even as the pair regained the 0.88 barrier later in the session. The pair closed the session at 0.8806. Cable drifted cautiously higher yesterday, supported by the rise in EUR/USD. The pair closed the session at 1.2971. **One shouldn't draw firm conclusions from yesterday's EUR/GBP price action**. If anything, the modest rise of EUR/GBP suggests that underlying sentiment on sterling remained constructive short-term.

Today, the UK Halifax House Prices, the May production data and the trade balance data will be published. The data might have some intraday impact on sterling trading. However, data of the month of May are not that timely. **So, they won't change the market assessment on the BoE approach**. Decent eco data might be a mildly supportive for sterling. However, we don't expect them to help break key technical levels. The US payrolls might also trigger intraday volatility in the major sterling cross rates.

From a technical point of view, EUR/GBP set a minor top north of the 0.8854/66 resistance (2017 top). A sustained break didn't occur, causing a correction on the recent EUR/GBP rebound. **A return below the 0.8655 correction low would indicate easing pressure on sterling, but** such a break lower will be difficult. A **EUR/GBP buy-on-dips approach remains favoured.**

EUR/GBP topside test rejected. Not clear trend for now



GBP/USD topside test rejected, but USD correction prevents further decline

Calendar

Friday, 7 July		Consensus	Previous
US			
14:30	**Change in Nonfarm Payrolls (Jun)**	**177k**	**138k**
14:30	Two-Month Payroll Net Revision (Jun)	--	-66k
14:30	Change in Private Payrolls (Jun)	175k	147k
14:30	Change in Manufact. Payrolls (Jun)	5k	-1k
14:30	**Unemployment Rate (Jun)**	**4.3%**	**4.3%**
14:30	**Average Hourly Earnings MoM / YoY (Jun)**	**0.3%/2.6%**	**0.2%/2.5%**
14:30	Average Weekly Hours All Employees (Jun)	34.4	34.4
14:30	Labor Force Participation Rate (Jun)	--	62.7%
Canada			
14:30	Net Change in Employment (Jun)	11.3K	54.5k
14:30	Unemployment Rate (Jun)	6.6%	6.6%
UK			
09:30	Halifax House Prices MoM & 3Mths/Year (Jun)	0.2%/3.1%	0.4%/3.3%
10:30	**Industrial Production MoM / YoY (May)**	**0.4%/0.2%**	**0.2%/-0.8%**
10:30	Manufacturing Production MoM / YoY (May)	0.4%/0.9%	0.2%/0.0%
10:30	Construction Output SA MoM / SA YoY (May)	0.6%/1.1%	-1.6%/-0.6%
10:30	Visible Trade Balance GBP/Mn (May)	-£10850	-£10383
14:00	NIESR GDP Estimate (Jun)	--	0.2%
Germany			
08:00	**Industrial Production SA MoM / WDA YoY (May)**	**0.3%/4.0%**	**0.8%/2.9%**
France			
08:45	Trade Balance (May)	-5100m	-5535m
08:45	Industrial Production MoM / YoY (May)	0.6%/1.4%	-0.5%/0.6%
08:45	Manufacturing Production MoM / YoY (May)	0.6%/1.4%	-1.2%/1.1%
Italy			
10:00	Retail Sales MoM / YoY (May)	0.3%/1%--	-0.1%/1.2%
China			
	Foreign Reserves (Jun)	$3062.0b	$3053.6b
Norway			
08:00	Industrial Production MoM / WDA YoY (May)	--/--	0.7%/0.9%
Spain			
09:00	Industrial Production MoM (May)	0.5%	0.1%
Events			
01:30	**Fed's Fischer Speaks on Government Policy, Labor Productivity**		
17:00	Fed releases July 2017 Monetary Policy Report to the Congress		

10-year	Close	-1d		2-year	td	-1d	Stocks	Close	-1d
US	2.37	0.04		US	1.39	-0.01	DOW	21320.04	-158.13
DE	0.56	0.09		DE	-0.58	0.02	NASDAQ	6089.464	-61.39
BE	0.92	0.10		BE	-0.43	0.04	NIKKEI	19929.09	-64.97
UK	1.32	0.06		UK	0.35	0.05	DAX	12381.25	-72.43
JP	0.10	-0.01		JP	-0.10	-0.01	DJ euro-50	3462.06	-16.35
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	0.02	1.80	0.80	Eonia	-0.3590	-0.0020			
5y	0.33	2.01	1.00	Euribor-1	-0.3730	0.0000	Libor-1	1.2233	0.0000
10y	0.98	2.35	1.39	Euribor-3	-0.3300	0.0010	Libor-3	1.3030	0.0000
				Euribor-6	-0.2730	0.0010	Libor-6	1.4571	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1423	0.0070		EUR/JPY	129.33	0.76	CRB	174.43	0.77
USD/JPY	113.22	-0.04		EUR/GBP	0.8806	0.0029	Gold	1223.30	1.60
GBP/USD	1.2971	0.0037		EUR/CHF	1.0969	0.0025	Brent	48.11	0.32
AUD/USD	0.7586	-0.0017		EUR/SEK	9.6434	0.0104			
USD/CAD	1.2978	0.0021		EUR/NOK	9.5395	0.0136			

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