



## Sunrise

Friday, 02 December 2016

### Rates: Correction time, even in case of stronger payrolls?

Today it's all about the payrolls. Yesterday's post-ISM reaction suggests that a break higher of key US yield resistances will be difficult following the huge November bond sell-off. The equity and dollar rally also show signs of petering out while oil prices might also give back some of the post-OPEC gains. Ahead of the weekend, some short covering could occur.

### Currencies: Will strong payrolls support further USD gains?

Yesterday, the dollar held strong against the yen, but stabilized against the euro. Today, strong payrolls might support further USD gains. However, will the dollar fully profit from the payrolls if the global risk-on reflation trade peters out? EUR/GBP touched a new correction low yesterday. Will the sterling short squeeze slow?

### Calendar

## Headlines

- **US equities** lost ground on the back of higher interest rates. Only the Dow Jones reached a new high, supported by the financial sector. **Overnight**, Asian stock markets lose up to 1%.
- **Australian retail sales** growth in October slowed marginally, but still came in comfortably above forecasts. Sales grew 0.5% M/M in October, down from September's 0.6% pace that had been the equal-best since June last year.
- **The ECB will extend its bond purchases beyond March and consider sending a formal signal after its policy meeting next Thursday that the programme will eventually end**, senior unidentified "sources" said.
- **The stock of government bonds with a negative yield tumbled by more than \$1tn in November**, from \$10.4tn to \$9.3tn, as rising inflation expectations ignited a sell-off in the debt market. The figure reached a \$11.7tn high (Brexit)-vote.
- **President François Hollande** said he wouldn't stand for re-election in May, an unprecedented decision for a French head of state that adds more uncertainty to France's presidential race.
- **Oil prices take a breather overnight** and trades somewhat lower (\$53.50) after a wild two day post-OPEC rally that pushed Brent from about \$46.50 to \$54.50.
- **Donald Trump** nominated retired four-star general James Mattis to be his secretary of defence, and hopes **another Goldman bigwig, Mr. Cohn**, will join his eco team as head of the Office of Management & Budget.
- **Today's eco calendar contains the US payrolls report** and speeches by Fed governors Brainard and Tarullo. This weekend, **Austrian presidential elections** and the **Italian referendum** take place.

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	↓

# Rates

## Core bonds crash, as investors run for the exit

Yesterday, core bonds remained under downward pressure. It was initially limited to one move lower in the European morning session followed by sideways trading. In the afternoon, a renewed surge in oil and the entrance of US traders triggered more core bond selling. The stronger ISM was largely ignored, but a third selling wave occurred later in the session. It might have been triggered by rumours that the ECB was considering a formal signal after its December meeting that the bond buying programme will eventually end (after an extension). The US 10-yr yield approached 2.5% resistance (2.49%) and the US 5-yr yield finally took out 1.85% resistance (1.90%). The US 30-yr yield now trades near 3.10%. Fed rate hikes are now discounted for September 2017 and March and September 2018. In a daily perspective, the US curve bear steepened with yields up between 3.4 bps (2-yr) and 7.4 bps (30-yr). The German curve steepened too with the 2-yr yield down 0.5 bps and the 30-yr year up 10.2 bps with new closing highs for the 10-yr (0.37%) and the 30-yr Bund yields (1.04%). In the intra-EMU bond market, 10-yr yield spreads narrowed 3-4 bps, including for Italy which faces a referendum on Sunday.

### US curve bear steepens as selling accelerates

### ECB rumor hits German bonds

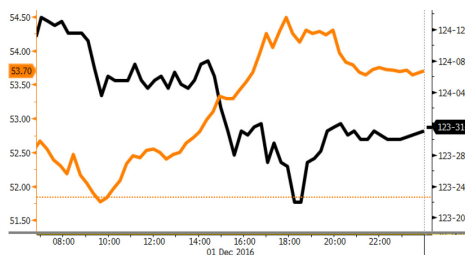
	US yield	-1d
2	1,1436	0,0205
5	1,8902	0,0432
10	2,4393	0,0547
30	3,0953	0,0526

### Upside risks to US payrolls

	DE yield	-1d
2	-0,7300	0,0100
5	-0,3820	0,0480
10	0,3700	0,0940
30	1,0275	0,0806

## US payrolls, eye-catcher of the day

The November US payrolls won't be important for the outcome of the December 14 FOMC meeting. A 25 bps rate hike is baked in the cake. The report is important though for market perceptions about the pace of monetary tightening next year. In the context of the incoming administrations' fiscal plans and given already tight labour markets, it should normally lead to more tightening. The Fed projections' contain 2 rate hikes in 2017, while markets discount only one. Markets expect a 180K increase payroll increase with a stable unemployment rate (4.9%) and a 0.2% M/M /2.8% Y/Y increase in Average Hourly Earnings (AHE; 0.4% M/M/ 2.8% previously). The headline 180K increase would follow an increase by 161K in October. We see risks to the upside (200K?) based on a negative weather effects on the East coast (hurricane Mathew) that artificially lowered the October outcome. Such effect was visible in the state payroll data that have been released since. Other recent November eco data like consumer confidence, but also weekly retail sales, point in a similar direction. Besides the headline number, any upside surprise in the AHE (wage growth) wouldn't go unnoticed. With markets itchy, surprises should move them.



T-Note future (black) and oil (orange) (intraday): Slide lower bonds continued as oil surge has another up-leg.



US 10-yr yield reached key 2.50% level after of payrolls.

R2	163,19	-1d
R1	162,08	
<b>BUND</b>	<b>160</b>	<b>-0,8600</b>
S1	159,14	
S2	158,67	

## Correction time, even in case of stronger payrolls?

**Overnight**, Asian stock markets lose up to 1%. The US Note future gains some ticks while Brent crude loses modestly ground. We expect a slightly higher opening for the Bund.

**Today it's all about the payrolls. Risks are on the upside of expectations which is negative for core bonds.** The US 5-yr (1.85% area) broke and 10-yr yield (2.5%) reached key resistance levels. **Stronger payrolls will trigger an intense test, but yesterday's post-ISM reaction suggests that a break will be difficult following the huge November bond sell-off. The equity and dollar rally also show signs of petering out while oil prices might also give back some of the post-OPEC gains. Ahead of the weekend, some short covering could occur after the payrolls, going into the Austrian presidential elections (toss-up between far left and far right candidate) and Italian referendum (probable defeat for PM Renzi).** Both events could put peripheral bond markets under some pressure today, even if the "damage" remained limited so far.

**Any correction higher in core bonds markets could be used to sell-the-uptick short term. We hold our medium term negative view on the US Note future and Bund.**



# Currencies

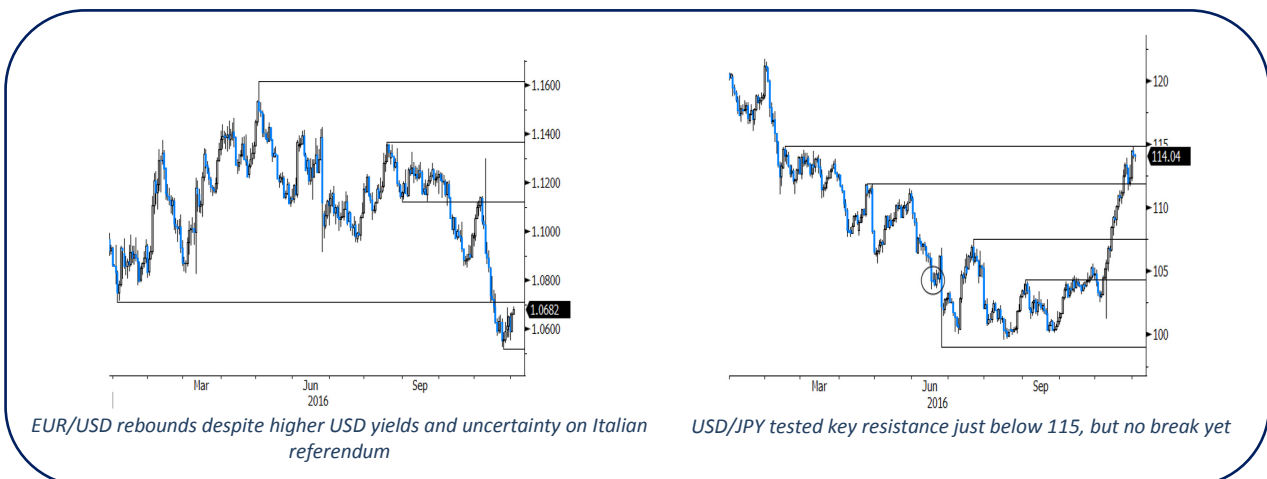
*Dollar supported by higher yields, but setting new highs become tougher*

R2	1,0851	-1d
R1	1,0691	
<b>EUR/USD</b>	<b>1,0679</b>	0,0060
S1	1,0518	
S2	1,0458	

## Will the payrolls trigger further USD gains?

On Thursday, core yields continued to rise, keeping USD/JPY well supported in the 114 big figure for most of the day. The 104.83 reaction top stayed within reach, but even a strong ISM couldn't force a break. EUR/USD initially hovered near the 1.06 big figure, but the dollar ceded ground later, as sentiment on risk turned less buoyant. USD/JPY closed the session at 114.10 from 114.46 on Wednesday. EUR/USD finished the day at 1.0661 (from 1.0589)

Overnight, the setback of US tech shares is filtering into Asian markets which show losses of 0.5% to 1.0%. The global reflation trade is easing. Oil declines slightly after the exuberant OPEC rally. The yen profits only slightly from the risk-off sentiment. USD/JPY is holding in the 114 area. The losses of the dollar against the euro is more pronounced, despite the uncertainty on the Italian referendum. EUR/USD is setting a new ST correction top, trading in the 1.0685 area. Australia October retail sales were OK (0.5% M/M), but the Aussie dollar isn't able to regain ground. AUD/USD still struggles to hold north of 0.74.



EUR/USD rebounds despite higher USD yields and uncertainty on Italian referendum

USD/JPY tested key resistance just below 115, but no break yet

*Payrolls might be USD supportive, but global contest might slow the USD rally*

Later today, the US payrolls won't have much importance anymore for the outcome of the December 14 FOMC meeting. A 25 bps rate hike is baked in the cake. The report is important though for market perceptions about the pace of monetary tightening next year. The Fed expects 2 rate hikes in 2017, the market discounts one. Given the incoming administrations' fiscal plans, tighter labour markets already before fiscal policy is implemented, means normally more tightening. Markets expect a 180K job increase by a stable 4.9% unemployment rate. Average Hourly Earnings (AHE) are expected at 0.2% M/M 2.8% Y/Y (0.4% M/M/ 2.8% prev.). **We see risks to the upside** (200K?). Other recent November eco data point in a similar direction. Besides the headline number, any upside surprise in the AHE (wage growth) wouldn't go unnoticed. **A strong US payrolls report might extend the recent rise in US yields, which would be USD supportive. However, the core bonds sell-off may be near exhausting and need a pause, which might occur before the eventful weekend. We have the impression that the risk-on/reflation rally is losing momentum. This is not 'per se' USD negative, but in case of a more pronounced (US) equity correction, the currency part of the reflation trade (the rise of the dollar) might also ease.**

The Italian referendum remains a wild card. We have the impression that ST players are more inclined to slightly reduce euro shorts rather than bet on the potential negative consequences of the referendum. **To Summarize:** payrolls might come out USD supportive, but the global contest might prevent the dollar to profit from a strong report. EUR/USD is currently testing a firms minor resistance in the high 1.0685/90 area . A break beyond this level suggests that the USD rally is losing momentum.

**From a technical point of view,** EUR/USD cleared intermediate support at 1.0851 and 1.0711 (2016 low) improving the picture of the dollar. The pair also tested the 1.0524 Dec 2015 low, but a break didn't occur. So, the cycle low at 1.0458 is left intact for now. We maintain a sell-on-upticks bias for EUR/USD. The 38% retracement from the Trump decline comes in at 1.0817. We don't expect EUR/USD to regain that level. The technical picture for USD/JPY improved too. The pair took out the key resistance at 111.45/91. Next key resistance at 114.50/115 was tested yesterday but the test was rejected. The pair is in overbought territory. Time for USD/JPY to take breather, too?

### EUR/GBP setting new correction lows

R2	0,8828	-1d
R1	0,8689	
<b>EUR/GBP</b>	<b>0,8454</b>	-0,0022
S1	0,846	
S2	0,8333	

On Thursday, sterling took a calm start after volatile trading over the previous days. **The UK manufacturing PMI was softer than expected** and Sterling lost a few ticks. However, when UK Brexit Minister Davis said that the UK would consider to contribute to the EU budget if it would get free access to the European market, sterling regained ground (sterling short covering) and fell temporary below 0.84. Davis words suggests **the UK might avoid an hard Brexit.** However, the tide turned and EUR/GBP closed the session unchanged at 0.8467.

**Today, the UK construction PMI is expected slightly softer at 52.2 from 52.6.** However, we don't expect to report to have a lasting impact on sterling trading. Over the previous days, investors further reduced longstanding sterling shorts on indications that the UK could do some concessions to avoid a hard Brexit. The jury is still out, but yesterday's price action in EUR/GBP doji-like intraday rebound might suggest that this process might lose momentum. However, the jury is still out. 0.8333 should provide strong resistance. **We stay neutral on EUR/GBP for now.** Some consolidation in EUR/USD might ease the downside pressure in EUR/GBP.



EUR/GBP: will the 0.8333 support hold?



GBP/USD: consolidation continues

# Calendar

Friday, 2 December		Consensus	Previous
<b>US</b>			
14:30	<b>Change in Nonfarm Payrolls (Nov)</b>	180k	161k
14:30	Two-Month Payroll Net Revision (Nov)	--	44k
14:30	Change in Private Payrolls (Nov)	170k	142k
14:30	Change in Manufact. Payrolls (Nov)	-3k	-9k
14:30	<b>Unemployment Rate (Nov)</b>	4.9%	4.9%
14:30	<b>Average Hourly Earnings MoM / YoY (Nov)</b>	0.2%/2.8%	0.4%/2.8%
14:30	Average Weekly Hours All Employees (Nov)	34.4	34.4
14:30	Change in Household Employment (Nov)	--	-43.0
14:30	Labor Force Participation Rate (Nov)	--	62.8%
15:45	ISM New York (Nov)	--	49.2
<b>Canada</b>			
14:30	Unemployment Rate (Nov)	7.0%	7.0%
14:30	Net Change in Employment (Nov)	-20.0k	43.9k
<b>Japan</b>			
00:50	Monetary Base YoY (Nov)	A 21.5%--	22.1%
00:50	Monetary Base End of period (Nov)	A ¥418.8T--	¥417.6t
<b>UK</b>			
10:30	Markit/CIPS UK Construction PMI (Nov)	52.2	52.6
<b>EMU</b>			
11:00	PPI MoM / YoY (Oct)	0.4%/-1.0%	0.1%/-1.5%
<b>Norway</b>			
10:00	Unemployment Rate (Nov)	--	2.8%
<b>Spain</b>			
09:00	Unemployment MoM Net ('000s) (Nov)	-25.6	44.7
<b>Events</b>			
14:45	<b>Fed Governor Brainard speaks in Washington</b>		
19:00	<b>Fed's Tarullo Speaks at Financial Stability Conference</b>		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,44	0,05	US	1,14	0,02	DOW	19192 19191,93
DE	0,37	0,09	DE	-0,73	0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,70	0,07	BE	-0,66	0,01	NIKKEI	18426 18426,08
UK	1,51	0,09	UK	0,15	0,04	DAX	10534,05 10534,05
JP	0,04	0,01	JP	-0,16	-0,01	DJ euro-50	3031 3030,98

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	Eonia EUR	-0,344	-0,001
3y	-0,075	1,540	0,775	Euribor-1	-0,37	Libor-1 USD	0,26	0,26
5y	0,136	1,845	0,994	Euribor-3	-0,31	Libor-3 USD	0,38	0,38
10y	0,755	2,254	1,439	Euribor-6	-0,22	Libor-6 USD	0,55	0,55

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0679	0,0060	EUR/JPY	121,78	0,73		191,4055	1173,87	53,67
USD/JPY	114,07	0,06	EUR/GBP	0,8454	-0,0022	-1d	7,43	-0,94	1,16
GBP/USD	1,2625	0,0098	EUR/CHF	1,0788	0,0013				
AUD/USD	0,7411	0,0002	EUR/SEK	9,824	0,04				
USD/CAD	1,3306	-0,0082	EUR/NOK	8,9723	-0,04				

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