



Friday, 05 April 2019

Rates: US 10-yr yield retests lost support

US payrolls are expected to rebound following a dismal February figure. This week's US eco data managed to ease global growth worries somewhat with the US 10-yr yield retesting previously lost support in the 2.5%-2.55% area. The German 10-yr yield returned into positive territory.

Currencies: Will payrolls give a clear enough signal for a directional USDD move?

EUR/USD reversed most of Wednesday's rebound, but the 1.12 support still survived. EUR/USD and USD/JPY profit slightly from positive headlines on the China-US trade talks this morning. The focus for USD trading will be on the US payrolls. However, a big surprise is probably needed to push the dollar (EUR/USD) out of recent ranges

Calendar

Headlines

- **US equity markets** gained mostly ground yesterday with technology shares underperforming (Nasdaq -0.05%). **Asian equities** are trading largely in green with modest gains. Bourses in China and Hong Kong are closed.
- **The US and China reached consensus on the text of a trade deal**, Chinese VP Liu He said. Chinese president Xi Jinping cited substantial progress, while US president Trump said a deal could be concluded within four weeks.
- **UK PM May will continue negotiations with Labour's Corbyn today** after no agreement was found yesterday. They are facing growing opposition to the cross-party initiative, with a public vote on a deal as one of the talking points.
- **US President Trump is to nominate Herman Cain for a position on the FED's board of governors**. Cain, a former contender for the Republican presidential nomination and ex-CEO of Godfather's Pizza, is a friend of the president.
- **US President Trump backs away from threats to immediately close the US border with Mexico** to stop immigrant crossing, but instead raised the possibility to impose new tariffs on Mexican car import.
- **Japanese real wages fell 1.1% in Feb. (Y/Y)** with a downward revision of January to -0.7% (Y/Y), driven by lower bonuses. The result is a bit surprising giving the historic low unemployment rate and **severe labour shortages**.
- **Today's eco calendar** contains US payrolls and earnings data for March. Canada prints labour data, while Germany prints the Industrial production for February. Fed's Bostic speaks and EU finance ministers meet.

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	➡

Rates

US 10-yr yield tests lost support

	US yield	-1d
2	2,34	0,00
5	2,34	-0,01
10	2,52	-0,01
30	2,94	-0,01

	DE yield	-1d
2	-0,58	0,00
5	-0,41	-0,01
10	-0,01	-0,01
30	0,63	-0,04

Global core bonds eked out modest gains yesterday in an uneventful trading session. German Bunds outperformed US Treasuries. Dreadful German factory orders gave Bunds a push in the back at the start of dealings while historically low US weekly jobless claims didn't impact trading. Minutes of the ECB's March policy meeting highlighted the split on extending forward guidance on policy rates even beyond the current end of 2019, as mentioned by ECB President Draghi at his press conference. **Non-voting Philly Fed governor Harker** still deems it realistic to hike policy rates 1 time this year and 1 more time in 2020. **NY Fed governor Williams** pushed back markets' pessimistic view by saying that the outlook is positive, GDP growth on track and the unemployment low. He added that there are no signs of inflationary pressures, warranting the central bank's wait-and-see approach. The German and US yield curves both flattened in a daily basis with US yields ending up to 1.4 bps (30-yr) lower and German yields falling up to 4 bps (30-yr). 10-yr yield spreads vs Germany ended nearly unchanged with Greece (-3 bps) marginally outperforming.

Most Asian stock markets record small gains overnight. Chinese bourses are closed for Tomb Sweeping Day. **Core bonds grind lower. China and the US claimed progress in trade talks,** but simultaneously dented hopes of a deal this month. **Mid-May is probably the earliest possible timing.**

Today's eco calendar heats up in the US with March payrolls. Consensus expects net job creation of 177k, rebounding from a dismal 20k in February. The ADP job report and employment components in regional/national business surveys warrant such rebound. We side with consensus. We warned at the start of the week that the market reaction to US eco data would be asymmetric with huge outperformance of US Treasuries in case of weakness and inaction in case of strength. So far, this didn't occur with the "doom and gloom" narrative fading to the background this week. A very weak outcome will therefore be probably needed for US Treasuries to regain traction. A retest of lost support levels in yield terms (2.5-2.55% area) is likely in all other scenarios.

Long term view: Markets concluded that the ECB missed out on this cycle. The 3M Euribor stripcurve only returns to positive levels by mid-2022. **Regarding Fed policy, they now discount a 55% probability of a Fed rate cut by December.** The US 10-yr yield fell through the lower bound of the 2.5%-2.79% trading range, continuing the downward trend since the beginning of March. The previous support now serves as resistance which is tested. On the downside, next support levels are the 2.3% area (intermediate) and 2% zone (key). The German 10-yr fell to negative levels again, the first time since October 2016. The downtrend remains in place with the all-time low (-0.2%) in sight.



German 10-yr yield: downtrend remains in place after soft ECB message early March



US 10-yr yield bounces back to test previous support levels

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1221	-0,0012
S1	1,1187	
S2	1,1119	

R2	0,93067	-1d
R1	0,91	
EUR/GBP	0,8582	0,0047
S1	0,8500	
S2	0,8314	

Will payrolls give directional guidance for USD?

EUR/USD reversed most of Wednesday's gain yesterday. The risk rally took a breather. German factory orders again declined sharply. EUR/USD started a gradual intraday slide. Later, jobless claims printed strong/low (202K), confirming a healthy labour market. US yields reversed an earlier dip. The combination of euro softness and a USD bid pushed EUR/USD to the low 1.12 area. The pair closed at 1.1221. USD/JPY stayed well bid and finished at 111.66.

Overnight, Asian equities mostly show modest gains as US and China officials confirmed progress on the trade talks. At least for now there is no euphoria. USD/JPY (111.70 area) profits slightly from the tentative risk-on. At the same time, EUR/USD also gains marginally (1.1225 area).

This morning, German production data might guide euro trading at the start of the session. However, the focus for global FX trading will be on **the US payrolls**. Late last week, markets were dominated by some kind of growth panic. This panic eased this week. In this context, a material deviation from consensus is probably needed for the payrolls to trigger an outspoken USD move. With the USD close to meaningful resistance levels (EUR/USD 1.12 support), the USD reaction function might be slightly asymmetrical with the dollar a bit more sensitive to a negative surprise than to a positive one.

Early this week, EUR/USD came close to the 1.1177/87 support, but a real test/break didn't occur. The jury is still out, but this week's price action suggests this support won't give away that easily. For that to happen, unexpected additional negative EMU news or surprisingly strong US data are probably needed. Recent data evidence doesn't support this scenario. A constructive risk sentiment/positive headlines on trade might be a euro supportive too. We keep the view that a sustained EUR/USD decline will not be that evident as we don't expect the Fed to leave its wait-and-see bias anytime soon.

EUR/GBP hovered in the 0.85 big figure yesterday as investors await more news from the talks between officials of PM May's party and the Labour opposition to try to find a way out of the Brexit impasse. This morning, EU's Tusk was said to offer the UK a 12-month Brexit delay. Sterling is gaining modest ground. A long delay evidently avoids a hard Brexit, but probably won't solve the political stalemate in the UK. We expect more technical trading in the EUR/GBP 0.85 big figure as the negotiations will most likely continue into the weekend.



EUR/USD: tentative signs of bottoming?



EUR/GBP hovers in the 0.85 big figure as Brexit talks between Conservatives and Labour continues

Calendar

Friday, 5 April		Consensus	Previous
US			
14:30	Change in Nonfarm Payrolls (Mar)	177k	20k
14:30	Change in Private Payrolls (Mar)	177k	25k
14:30	Change in Manufact. Payrolls (Mar)	10k	4k
14:30	Unemployment Rate (Mar)	3.8%	3.8%
14:30	Average Hourly Earnings MoM/YoY (Mar)	0.3%/3.4%	0.4%/3.4%
14:30	Average Weekly Hours All Employees (Mar)	34.5	34.4
14:30	Labor Force Participation Rate (Mar)	63.2%	63.2%
21:00	Consumer Credit (Feb)	\$17.000b	\$17.049b
Canada			
14:30	Net Change in Employment (Mar)	6k	55.9k
14:30	Unemployment Rate (Mar)	5.8%	5.8%
14:30	Hourly Wage Rate Permanent Employees YoY (Mar)	2.2%	2.2%
14:30	Participation Rate (Mar)	65.7	65.8
Japan			
01:30	Household Spending YoY (Feb)	1.7%A	2.0%
02:00	Real/Labor Cash Earnings YoY (Feb)	-1.1%A/-0.8%A	-0.7%R/-0.6%R
UK			
09:30	Halifax House Price MoM/3Mths-Year (Mar)	-2.8%/2.1%	5.9%/2.8%
Germany			
08:00	Industrial Production SA MoM/WDA YoY (Feb)	0.5%/-1.4%	-0.8%/-3.3%
Events			
05APR	Informal meeting of EU finance ministers and central bank presidents		
21:30	Fed's Bostic Discusses Disruption and Opportunity (non-voter)		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,52	-0,01		US	2,34	0,00	DOW	26384,63	166,50
DE	-0,01	-0,01		DE	-0,58	0,00	NASDAQ	7891,784	-3,77
BE	0,46	-0,03		BE	-0,49	0,00	NIKKEI	21807,5	82,55
UK	1,08	-0,01		UK	0,69	-0,02	DAX	11988,01	33,61
JP	-0,03	0,01		JP	-0,15	0,00	DJ euro-50	3441,93	6,37
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,13	2,37	1,04	Eonia	-0,3680	0,0000			
5y	0,04	2,36	1,14	Euribor-1	-0,3670	0,0000	Libor-1	2,4771	0,0000
10y	0,51	2,50	1,30	Euribor-3	-0,3100	0,0000	Libor-3	2,5978	0,0000
				Euribor-6	-0,2300	0,0000	Libor-6	2,6551	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1221	-0,0012		EUR/JPY	125,29	0,06	CRB	187,04	0,19
USD/JPY	111,66	0,17		EUR/GBP	0,8582	0,0047	Gold	1294,30	-1,00
GBP/USD	1,3077	-0,0081		EUR/CHF	1,1222	0,0009	Brent	69,40	0,09
AUD/USD	0,7112	-0,0001		EUR/SEK	10,4191	0,0066			
USD/CAD	1,3359	0,0014		EUR/NOK	9,6521	0,0211			

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