

**Thursday, 05 December 2019**

## Rates: Risk sentiment improves; waiting for payrolls

Improved risk sentiment, a sell-off in the UK Gilt market, higher oil prices and the US non-manufacturing ISM pulled core bonds lower again. US weekly jobless claims fill the void between ADP & ISM yesterday and payrolls tomorrow. They won't guide trading. Risk sentiment, positive this morning, will probably direct intraday gyrations.

## Currencies: EUR/USD testing 1.11. Pre-election short-squeeze propels sterling

The dollar showed a mixed picture yesterday. Global sentiment improved, but US data were unconvincing. EUR/USD tested the 1.11 resistance, but no sustained break occurred. EUR/USD momentum is improving. Tomorrow's payrolls might decide whether a break is possible. Sterling is squeezed higher as investors reduce sterling short hedges ahead of the election.

## 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 equities** edged higher (up to +0.63%) amid flickering trade hopes, waving away mixed to weaker US eco data. **Asian markets** are following the risk-on trade and mostly colour green. Australia outperforms (+1.16%).
- UK prime minister Boris Johnson set out a draft of policies the Conservatives would roll out when in government. **Johnson vowed to deliver Brexit and a tax-cutting budget within 100 days of winning the election on 12 December.**
- **Australian retail sales were flat (0% M/M) in October, far below the 0.3% expected gain.** Consumers' wallets remain closed despite boosts in disposable income from tax rebates and several interest rate cuts by the RBA to a record low of 0.75%.
- **The Japanese government announced an economic stimulus package** to bolster growth. The package amounts to around 26tn yen with **fiscal spending** around half that figure aiming to push up growth by 1.4%, Bloomberg reported.
- **The RBNZ increased the time frame for banks to comply with upcoming tougher capital requirements** from 5 to 7 years. The RBNZ also offered **more flexibility** by allowing some capital to be met by redeemable preference shares.
- **French president Macron's push to reform pensions is facing the ultimate test today.** Unions are going on an **indefinite strike** to oppose Macron's pension rebuild plans that would push back retirement for many workers.
- In **today's economic calendar** we line up for US jobs/trade data. In Europe, retail sales data and final Q3 growth numbers are due. OPEC meets today, preparing to discuss deeper output cuts. Spain, France and the UK tap the bond market.

# Rates

## Risk sentiment improves; waiting for payrolls

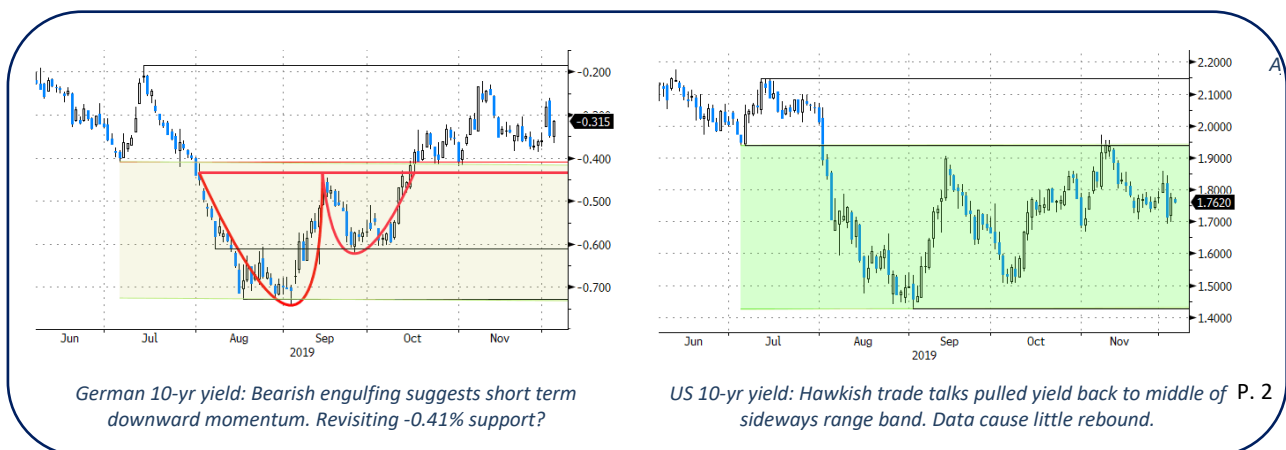
	US yield	-1d
2	1.57	0.03
5	1.59	0.06
10	1.77	0.06
30	2.21	0.06

	DE yield	-1d
2	-0.63	0.01
5	-0.57	0.02
10	-0.32	0.03
30	0.21	0.04

**This week's rollercoaster ride on core bond markets continued** yesterday with the Bund and US Note future both registering losses following Tuesday's impressive gains. **An improvement in risk sentiment, a sell-off in the UK Gilt market, higher oil prices and US eco data weighed on bonds.** The improvement in sentiment occurred as several media reports contradicted Trump's hawkish rhetoric to pull a US-Sino trade deal over the November 2020 US presidential elections. Sources even suggest additional progress made on reversing some tariff measures for a phase 1 deal. UK Gilts sold-off while sterling rallied as investors line up for a conservative election victory. Brent crude prices rose from \$61 to \$63/barrel with markets anticipating an extension of OPEC production cuts (currently expected to last until March). US eco data had the final say. An attempt to gain on a disappointing ADP-report was immediately blocked. The non-manufacturing ISM dropped slightly more than forecast, but details like new (export) order and employment improved. Investors especially eyed these positive elements, adding to selling pressure on core bonds. **US Treasuries underperformed German Bunds.** The US yield curve bear steepened with yields 3.5 bps (2-yr) to 6.3 bps (10-yr) higher. The German yield curve moved in similar fashion, with yields gaining 0.8 bps (2-yr) to 4.1 bps (30-yr). 10-yr yield spreads vs Germany ended close to unchanged with Greece (-5 bps) and Italy (-3 bps) outperforming.

**Most Asian stock markets trade positive this morning with India and South Korea underperforming.** JGB's don't outperform following the announcement of the government's slightly larger than expected fiscal stimulus programme. The Bund and US Note future trade directionless. **Today's eco calendar** is thin with US weekly jobless claims filling the void between yesterday's ADP & non-manufacturing ISM and tomorrow's payrolls. The OPEC meeting in Vienna is worth watching with markets anticipating an extension of production cuts. Overall risk sentiment will probably drive today's action and suggests a minor downward intraday bias for core bonds. Investors will be reluctant to place large directional bets ahead of tomorrow's payrolls.

**Technically,** the German 10-yr yield broke above -0.41% resistance as geopolitical uncertainty diminished and capped intermediate resistance at -0.328%, improving the technical picture. **Targets of this double bottom formation are -0.25% and -0.13%.** The 38% retracement level of the Oct-Aug decline stands at -0.24%. **The US 10-yr yield trades in the upper half of the 1.43%-1.94% sideways trading channel. First tests to take out 1.94% failed. Trade rhetoric broke recent upward momentum in core bond yields.**



German 10-yr yield: Bearish engulfing suggests short term downward momentum. Revisiting -0.41% support?

US 10-yr yield: Hawkish trade talks pulled yield back to middle of P. 2 sideways range band. Data cause little rebound.

# Currencies

R2	1.1533	-1d
R1	1.1448	
<b>EUR/USD</b>	<b>1.1078</b>	<b>-0.0004</b>
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
<b>EUR/GBP</b>	<b>0.8454</b>	<b>-0.0074</b>
S1	0.8500	
S2	0.8314	

## EUR/USD better bid, testing 1.11 resistance area.

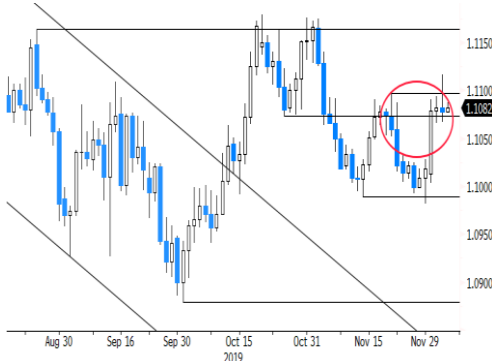
Developing news on the US-China trade talks still dominated global (FX) trading yesterday. On Tuesday, president Trump took a tougher stance causing risk-off repositioning. Lower US yields weighed on the dollar. Yesterday, **headlines on trade** turned **less negative. It didn't help the dollar much** as the US currency met **soft US data**. ADP job growth missed the consensus by a big margin. The US non-manufacturing ISM was mixed, at best. USD/JPY profited from the risk rebound and closed at 108.86. EUR/USD spiked temporarily above 1.11 on the US data but closed the session eventually little changed at 1.1078.

**This morning**, Asian equity indices show gains of up to 1.0%. Korea underperforms. **Japan** announced **a fiscal package** of JPY 13 trillion, with additional measures including loans and guarantees to support private activity. The direct impact on yields and the yen was limited. USD/JPY trades near 108.80. The Aussie dollar eased on disappointing exports and retail sales (AUD /USD 0.6840). **The kiwi dollar** outperforms on receding rate cut expectations. EUR/USD stabilizes near 1.1080.

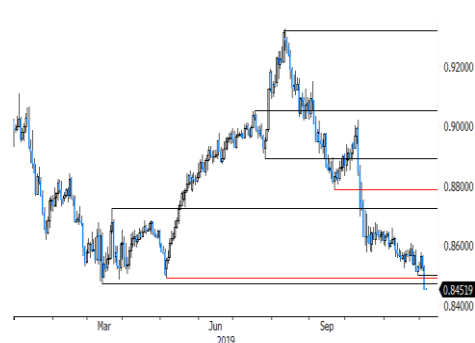
**Today**, eco calendar is thin. EMU retail sales are bit outdated. US jobless claims and trade balance data usually are only of intraday significance. So, global FX trading will again be overall sentiment. USD traders will look forward to tomorrow's key US payrolls report. Even so, the dollar recently become more sensitive to lower yields and softer US eco data.

**Early this week**, **EUR/USD** rebounded on divergent US-EMU eco news, including a soft US manufacturing ISM, bouncing off the 1.0980/1.10 support. Yesterday the 1.11 resistance area was tested, but no sustained break occurred. The EUR/USD momentum improved. A **break above 1.11 would call off the ST downward alert** and open the way for a retest of the 1.1179 top.

**The pre-election sterling short squeeze accelerated yesterday**. Investors continue to reduce sterling hedges as the conservative party is seen as securing a majority in parliament at next week's election. EUR/GBP (0.8455) dropped below the 0.8475 support. Cable jumped north of 1.31. Quite some good news is already discounted for sterling, but the day-to-day momentum/technical picture is sterling supportive.



EUR/USD tests in 1.11 resistance area on soft US data. Payrolls to decide on a break?



EUR/GBP: sterling pre-election short-squeeze pushing sterling beyond key resistance.

# Calendar

Thursday, 5 December		Consensus	Previous
<b>US</b>			
13:30	Challenger Job Cuts YoY (Nov)	--	-33.50%
<b>14:30</b>	<b>Initial Jobless Claims</b>	<b>215k</b>	<b>213k</b>
14:30	Continuing Claims	1660k	1640k
14:30	Trade Balance (Oct)	-\$48.5b	-\$52.5b
16:00	Durable Goods Orders (Oct F)	0.30%	0.60%
<b>UK</b>			
10:00	New Car Registrations YoY (Nov)	--	-6.70%
<b>EMU</b>			
11:00	Retail Sales MoM/YoY (Oct)	-0.5%/2.2%	0.10%/3.10%
11:00	GDP SA QoQ/YoY (3Q F)	0.20%/1.20%	0.20%/1.20%
<b>Germany</b>			
<b>08:00</b>	<b>Factory Orders MoM/WDA YoY (Oct)</b>	<b>0.40%/-4.70%</b>	<b>1.30%/-5.40%</b>
09:30	Markit Germany Construction PMI (Nov)	--	51.5
<b>Events</b>			
05DEC	OPEC+ meets in Vienna		
10:45	Spain to Sell Bonds		
10:50	France to Sell Bonds		
16:00	Fed's Quarles Speaks on Supervision and Regulation to Congress		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	1.77	0.06		US	1.57	0.03	DOW	27649.78	146.97
DE	-0.32	0.03		DE	-0.63	0.01	NASDAQ	8566.672	46.03
BE	-0.03	0.03		BE	-0.62	0.00	NIKKEI	23300.09	164.86
UK	0.74	0.07		UK	0.58	0.08	DAX	13140.57	151.28
JP	-0.04	0.00		JP	-0.15	0.01	DJ euro-50	3660.02	49.03
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.30	1.56	0.81	Eonia	-0.4540	0.0000	Libor-1	1.7036	0.0000
5y	-0.21	1.57	0.85	Euribor-1	-0.4500	-0.0020	Libor-3	1.8915	0.0000
10y	0.09	1.70	0.95	Euribor-3	-0.3930	0.0040	Libor-6	1.8954	0.0000
				Euribor-6	-0.3350	-0.0020			
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1078	-0.0004		EUR/JPY	120.6	0.21	CRB	179.40	1.81
USD/JPY	108.86	0.23		EUR/GBP	0.8454	-0.0074	Gold	1480.20	-4.20
GBP/USD	1.3104	0.0109		EUR/CHF	1.0953	0.0014	Brent	63.00	2.18
AUD/USD	0.6849	0.0002		EUR/SEK	10.5382	-0.0229			
USD/CAD	1.3201	-0.0095		EUR/NOK	10.1625	-0.0158			

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