



Friday, 06 December 2019

Rates: Disappointing payrolls would put us back to square one

US payrolls end a busy eco data week. Risks are tilted to the downside of expectations, which should benefit core bonds. In that case, the US Note future could return to this week's opening levels following a volatile week driven by trade rhetoric and eco data. From a technical point of view, 1.7% is short term support within the reigning trading band.

Currencies: Will soft payrolls propel EUR/USD beyond 1.11 resistance area?

This week, the dollar ceded ground after mixed US eco data. Expectations for today's payrolls are quite high. A miss might extend the USD correction, pushing EUR/USD beyond the 1.11 resistance. Sterling anticipates a conservative majority and clarity on Brexit. This remains the favoured scenario, but after recent rally adverse news might cause some nervous swings.

Calendar

Headlines

- **US equities** closed a choppy session barely changed yesterday with gains for the major indices ranging from 0.05% to 0.15%. Most **Asian markets** trade in the green this morning. South-Korea outperforms (+1.5%).
- **The SPD's new leadership** is calling for a "massive" investment programme in Germany but, unlike earlier, **refrained from threatening to pull out of the coalition** with Merkel's CDU if the proposals are not accepted.
- **The US opposed a multibillion World Bank loan for China**, aimed to help fund green investments, market reforms and healthcare initiatives. The programme became ever more controversial in the US in the midst of a trade war.
- **OPEC members agreed in principle they will deepen production cuts by 500 000 barrels a day.** Brent oil prices decline to \$63.2/b. as the increased output curbs are largely a formalisation of what already happened in practice.
- **New Zealand's central bank Deputy Governor Bascand doesn't expect the banks raising their capital buffers to have a material impact on the economy**, which he sees at a "turning point" of entering a recovery. The Kiwi dollar rose.
- **More than 800 000 workers across France demonstrated yesterday**, protesting against Macron's plans to harmonize the pension system. French labor unions announced they will extend their strike until Monday.
- **Today's economic calendar** contains US November payrolls and the University of Michigan consumer confidence. Germany's SPD decides over the fate of the Grand Coalition. UK's Johnson and Corbyn debate ahead of the Dec 12 elections.



Rates

Disappointing payrolls would put us back to square one

 **Core bonds resumed their selling trend** yesterday. US Treasuries underperformed German Bunds. **It's the path of least resistance for bonds these days with risk sentiment still supportive and oil prices continuing their uptrend** anticipating the outcome of the OPEC(+) meeting. Weak German factory data and low US weekly jobless claims had no impact on trading. US yields added between 1.9 bps (2-yr) and 3.6 bps (10-yr) on a daily basis. German yields rose by 0.3 bps (2-yr) to 2.1 bps (10-yr). 10-yr yield spreads vs Germany widened 1 to 3 bps with Greece outperforming (-3 bps) and Italy (+6 bps) underperforming.

 Asian stock markets color green this morning with India (-0.5%) underperforming. **Core bonds are a tad weaker after Chinese media reported that the country is working on tariff exemptions on soybeans and pork imported from the US.** Overnight, there were also constructive comments from both sides on trade talks. The new SPD leadership softened its stance on leaving the government ahead of the start of the party congress.

November US payrolls are this week's apex. The largest strike in more than 10 years impacted the October growth figure by 48 000 jobs. That led to well below-average 128 000 new jobs. Consensus expects US businesses to have created 183 000 jobs in November. This includes an obvious boost in the manufacturing payrolls of 50 000 after the GM strike ended by the end of October. Given the malaise in the sector (see Monday's disappointing ISM at 48.1), risks are that the positive GM impact is offset more than expected by job cuts in the rest of the manufacturing area. Private service-providing is expected to add 139 000 jobs. Retail trade and leisure & hospitality have been the strongholds in services job creation. We expect the latter to retreat after an exceptionally strong October, adding further to **downside risks**. Lastly, Wednesday's ADP job report missed estimates. Although there's no one-on-one correlation with the official payrolls report, the margin of the miss (67 000 vs. 135 000) should not be ignored. **A payroll miss would be positive for US Treasuries and put us back to square one following a volatile trading week.** The outcome of the OPEC meeting is a wildcard for trading.

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. First support kicks in around 1.7%**.



German 10-yr yield: break above -0.41% opens new range capped by -0.13%



US 10-yr yield: trade and data cause volatility in upper half of trading range. Short term support around 1.7%

Currencies

Will payrolls propel EUR/USD break beyond 1.11?

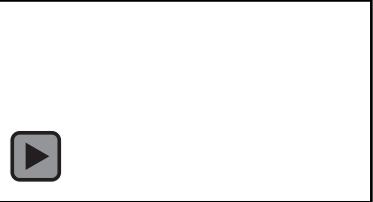
Yesterday was an 'interim' day for global (FX) trading. A first batch of US data earlier this week guided the dollar lower. The news on trade stayed diffuse. Contrary to last week, the dollar now was the weakest link in the chain of the major currencies. Strong (low level) US jobless claims were unable to change fortunes for the dollar. The trade-weighted USD (DXY) trended lower in the 97 figure. EUR/USD drifted higher to the 1.11 level, despite mediocre German order data (close 1.1104). USD/JPY reversed an intraday rebound as sentiment on risk dwindled (close 108.76).

This morning, Asian equities mostly show modest gains after uninspiring price action on WS. Uncertainty on trade persists, but headlines suggest China might prepare purchases of US agricultural goods. OPEC+ is expected to prolong production cuts, but the details still have to be agreed and compliance remains an issue. Brent oil is holding near \$63 p/b. Major USD cross rates are little changed, mostly holding near recent lows. EUR/USD hovers near 1.11. The kiwi dollar extends gains on upbeat RBNZ comments on growth (NZD/USD 0.6555 area).

Today, headlines on trade still can affect global trading. In past, the dollar often profited from higher yields, e.g. on positive trade headlines, but we have the impression that this link is becoming loser. Regarding, the US payrolls, consensus expects a solid 183 000 job growth. The bar is high. In case of an undershoot, the dollar might be vulnerable.

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. The 1.11 resistance area was tested, but no sustained break occurred. The EUR/USD momentum improved. Today's payrolls have the potential to trigger a **break above 1.11. It would call off the downward alert** and open the way for a retest of the 1.1179 top.

Sterling kept a solid bid yesterday. Investors apparently still reduced sterling short exposure ahead an expected Conservative majority at next week's Parliamentary election. This remains the mostly likely scenario. Evidently, after recent sterling rally, any last-minute news questioning the expected outcome could cause nervous swings in the UK currency. **The technical picture of sterling against euro and the dollar has improved after recent technical breaks (EUR/GBP below 0.8475).**



EUR/USD tests in 1.11 resistance area. Payrolls to decide on a break.



EUR/GBP: sterling continues to anticipate clarity on Brexit after next week's election.

Calendar

Friday, 6 December		Consensus	Previous
US			
14:30	Change in Nonfarm Payrolls (Nov)	183k	128k
14:30	Change in Private Payrolls (Nov)	179k	131k
14:30	Change in Manufact. Payrolls (Nov)	40k	-36k
14:30	Unemployment Rate (Nov)	3.60%	3.60%
14:30	Average Hourly Earnings MoM/YoY (Nov)	0.30%/3.00%	0.20%/3.00%
14:30	Average Weekly Hours All Employees (Nov)	34.4	34.4
14:30	Labor Force Participation Rate (Nov)	--	63.30%
14:30	Underemployment Rate (Nov)	--	7.00%
16:00	U. of Mich. Sentiment (Dec P)	97	96.8
16:00	U. of Mich. Current Conditions (Dec P)	112.8	111.6
16:00	U. of Mich. Expectations (Dec P)	87.5	87.3
16:00	U. of Mich. 1 Yr Inflation (Dec P)	--	2.50%
16:00	U. of Mich. 5-10 Yr Inflation (Dec P)	--	2.50%
21:00	Consumer Credit (Oct)	\$16.000b	\$9.513b
Canada			
14:30	Part Time Employment Change (Nov)	15.0	14.3
14:30	Full Time Employment Change (Nov)	10.0	-16.1
14:30	Net Change in Employment (Nov)	10.0k	-1.8k
14:30	Unemployment Rate (Nov)	5.50%	5.50%
14:30	Hourly Wage Rate Permanent Employees YoY (Nov)	4.50%	4.40%
14:30	Participation Rate (Nov)	65.7	65.7
Japan			
00:30	Labor/Real Cash Earnings YoY (Oct)	0.5%A/0.1%A	0.5%R/0.2%R
00:30	Household Spending YoY (Oct)	-5.1%A	9.50%
Germany			
08:00	Industrial Production SA MoM/WDA YoY (Oct)	0.10%/-3.60%	-0.60%/-4.30%
Events			
06DEC	Germany's Social Democrats gather for two-day convention		
06DEC	Head-to-head debate between Corbyn and Johnson scheduled		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	1.81	0.04	US	1.59	0.02	DOW	27677.79	28.01	
DE	-0.29	0.02	DE	-0.62	0.00	NASDAQ	8570.701	4.03	
BE	0.00	0.03	BE	-0.62	0.00	NIKKEI	23354.4	54.31	
UK	0.77	0.03	UK	0.59	0.01	DAX	13054.8	-85.77	
JP	0.00	0.03	JP	-0.13	0.03	DJ euro-50	3648.13	-11.89	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.29	1.59	0.83	Eonia	-0.4550	0.0000			
5y	-0.19	1.61	0.88	Euribor-1	-0.4530	-0.0030	Libor-1	1.7131	0.0000
10y	0.11	1.74	0.98	Euribor-3	-0.3950	-0.0020	Libor-3	1.8871	0.0000
				Euribor-6	-0.3360	-0.0010	Libor-6	1.8875	0.0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.1104	0.0026	EUR/JPY	120.77	0.17	CRB	180.07	0.67	
USD/JPY	108.76	-0.10	EUR/GBP	0.8439	-0.0014	Gold	1483.10	2.90	
GBP/USD	1.3157	0.0053	EUR/CHF	1.0962	0.0009	Brent	63.39	0.39	
AUD/USD	0.6834	-0.0015	EUR/SEK	10.5372	-0.0010				
USD/CAD	1.3174	-0.0027	EUR/NOK	10.1458	-0.0167				

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