



Sunrise

Friday, 06 October 2017

Rates: Can payrolls pave the way for full retracement?

The Fed indicated that Q3 eco data might be distorted by the impact from hurricanes. Therefore, we don't expect US Treasuries to strongly profit from disappointing payrolls. If, on the other hand, payrolls are strong, it should pave the way for a full retracement in the US note future towards 124-14+.

Currencies: Payrolls to support further USD gains?

The dollar received support from higher US yields and a new record race of US equities yesterday. Today's US payrolls will probably be distorted by the impact of the hurricanes. Still, a decent report might support further USD gains. Rising uncertainty on the political fate of UK PM May kick-started a new down-leg of sterling.

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 S&P 500 (+0.5%) closed at its sixth consecutive record**, its longest streak of highs since 1997. **Asian stock markets trade with more or less similar gains** this morning with China still closed.
- **The second-largest bank based in Catalonia, Banco de Sabadell, has decided to move its legal headquarters** out of the region as Catalan separatists and the Spanish authorities hurtle towards a showdown over independence.
- **Theresa May faces rebellion among Tories.** Grant Shapps, who served as Tory chairman, said he has a list of colleagues who want a new leader and prime minister. The plotters aren't yet numerous enough to push her out.
- **Congressional Republicans moved to hasten an overhaul of the US tax code**, while **Federal Reserve officials warned** in rare public remarks **that President Trump's tax plan could lead to inflation and unsustainable federal debt.**
- **The global economy is enjoying its best growth spurt since the start of the decade, IMF Lagarde** said, as she urged governments and companies not to "let a good recovery go to waste".
- **The US Senate approved Randal Quarles for a key banking oversight post on the Federal Reserve Board**, marking President Donald Trump's first imprint on the central bank and his first full-time appointment of a banking regulator.
- **The focus of today's agenda is on the US payrolls report.** Average hourly earnings and unemployment rate will also be closely monitored. A number of European and US central bankers is scheduled to speak.

Rates

Hawkish Fed governors and risk-on push US Notes down

Ahead of the key US payrolls tomorrow, core bonds had an uneventful session with US Treasuries coming under pressure again later in the session. The Bund had a difficult start, but rebounded at a snail's pace from mid-morning onwards. The Minutes of the last ECB meeting suggested that the ECB might recalibrate its purchases by buying less, but compensate by buying for longer. The Bund went down for a brief moment after the release, but erased the losses soon to set an intraday high. However, US traders, who are more bearish recently, took the drivers' seat. US eco printed near expectations, but Philly Fed Harker sounded hawkish saying he pencilled in another rate hike this year and calling the economy "incredibly resilient". San Francisco Fed Williams said the the labour market in his view exceeded full employment. He expects the unemployment rate a bit below 4% and is optimistic inflation will go to 2% as temporary factors that hold inflation low wane. That should bring rates towards the 2.5% neutral rate. Together with Fed speakers, equities started to rally, maybe also partially because of easing tensions in Spain and stronger US factory orders. The German Bund's decline stopped at the previous close levels, but US Treasuries sank a bit deeper before trading sideways eyeing today's payrolls.

German yields up to 1 bp higher

US yields up to 2.8 bps higher (5yr)

Peripheral spreads narrow as Spanish tensions ease

Spanish 10-yr yield spread: -9 bps

	US yield	-1d
2	1,49	0,02
5	1,95	0,03
10	2,35	0,03
30	2,89	0,02

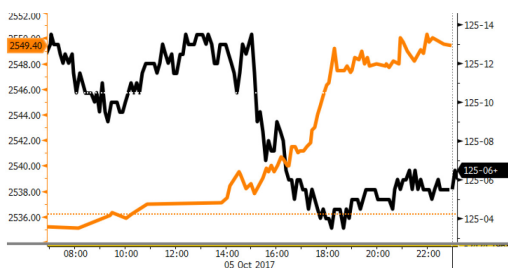
US payrolls and Central Bank speakers

The US payrolls are the most important economic release of the month, but the devastating impact of the tropical hurricanes likely negatively impacted the payrolls. How much is difficult to say. The consensus stands at a modest 80K new jobs, following an already weaker 156K in August. It compares to a trend growth of about 200K. Also other key metrics of the report like the unemployment (rate) and the average hours earnings might be distorted, even if that isn't obvious in the consensus estimates of 4.4% for the unemployment rate and 0.3% M/M and 2.5% Y/Y increase for the average hourly earnings, both stable versus August. Given the uncertainties surrounding the report, it's hard to make a prediction about the outcome. Recent PMI survey evidence suggests that the tightening of the labour market already reaccelerated towards the end of September. On top, we expect an upward revision of the August headcount. The combination of an upward revision in August and higher payrolls and maybe stronger earnings could trigger a sustained market reaction. If payrolls are weak, markets may discard them as unreliable. The central bank parade continues with Fed governors Dudley, Kaplan and Bullard and ECB governor De Galhau. We don't think they may bring new information that affects markets.

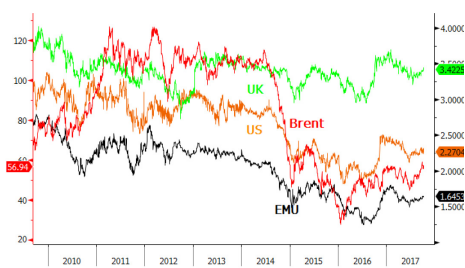
Distorted US Payrolls?

Parade of central bankers, but unlikely to affect trading sustainably

	DE yield	-1d
2	-0,70	0,01
5	-0,27	0,01
10	0,46	0,00
30	1,29	0,00



T-Note future (black) and S&P future (orange)(intraday): Turn in sentiment as Harker & Williams sound optimistic on growth/inflation



5-yr/5-yr inflation expectations: stabilized in US and Germany, but still at a rather low level. Recent higher oil price had no big effect. .

Can payrolls pave the way for full retracement?

R2	163,43	-1d
R1	161,98	
BUND	161,22	-0,10
S1	160,49	
S2	159,80	

Most Asian stock markets trade positive overnight in line with the US yesterday. Main WS indices closed at another all-time high. The US Note future is little changed while the dollar gains momentum. We expect a neutral to marginal weaker opening for the Bund.

All eyes are on the US payrolls today. The Fed clearly indicated its determination to hike its policy rate one more time this year. They acknowledged that Q3 eco data might be distorted by the impact from hurricanes Harvey and Irma. Past evidence showed though that possible Q3 weakness could then be compensated for by strength in Q4 (eg Hurricane Katrina in 2005). **Therefore, from a market point of view, we don't expect US Treasuries to react strongly on a negative payrolls/AHE/unemployment rate outcome. Any (temporary?) spike higher should be short-lived. A stronger outcome will weigh on US Treasuries, paving the way for a move to the contract low (complete retracement Summer rally) at 124-14+. The underperformance of the US Note future vs the Bund is expected to continue. We still shun Spanish assets because of this weekend's possible events (unilateral declaration of independence?).** We hold a sell-on-upticks view in the Bund as well (entry levels around 162) as the ECB's normalisation process slowly takes off and as speculation on the future of APP will rise in the run-up to the October 26 ECB policy meeting.



German Bund: Outperformance vs US Note future (European political risk?) to continue



US Note future: heading for full retracement of Summer rally. Sell-on-upticks with entry levels around 126.

Currencies

Dollar profits from renewed reflation trade.

Dollar supported by rise in US yields and equities

Initially, there was again no clear story to guide USD trading, yesterday. There were only second tier eco data in the US and Europe. Tensions on the Spanish markets eased, but it didn't support the euro. Later, the dollar was supported by some 'hawkish' Fed comments. The US reflation trade also regained momentum with major US stock indices setting new record levels and interest rate differentials slightly widening in favour of the dollar. EUR/USD finished the day at 1.1711 (from 1.1759). USD/JPY closed session at 112.82 (from 112.76)

Dollar extends gradual rebound

Overnight, Asian markets profited from positive spill-over effects from WS record race. Even so, the gains in USD/JPY are modest. The pair continues struggling to overcome the 113.00/26 resistance. Uncertainty on the outcome of the Japanese parliamentary elections might play a role. Overall USD strength finally pushed EUR/USD for the test of the recent lows below 1.17. The decline of the Aussie dollar accelerates after RBA-member Harper indicated that the economy isn't out of the woods and as he suggested that an additional rate cut isn't ruled out.

EUR/USD revisits recent lows

USD/JPY struggles to regain resistance

Aussie dollar declines on soft RBA talk

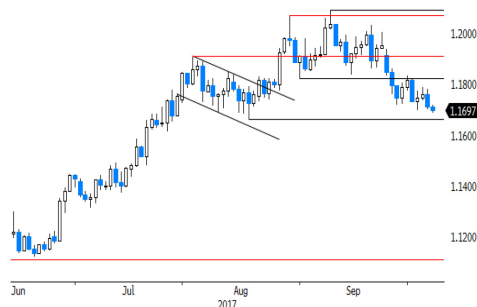
Today, the US September payrolls will be published. The tropical hurricanes likely impacted the payrolls negatively. How much is difficult to say. The consensus stands at a modest 80K net job growth. It compares to a trend growth of about 200K. Also other key metrics of the report like the unemployment rate (expected 4.4%) and the average hours earnings (expected 0.3% M/M and 2.5% Y/Y) might be distorted too.

Hurricanes likely distort US payrolls

Still, a good report might reinforce the reflation trade with further USD gains.

We see an asymmetrical risk. **If payrolls are indeed weak, markets may discard them as unreliable.** Better than expected job growth and, maybe even more important, a positive surprise in wage growth will be seen as confirming recent strong US data. **It might reinforce the reflation trade, including the rise of the dollar.** A weak figure might have only a modest negative impact on the dollar. The central bank parade continues today with Fed governors Dudley, Kaplan and Bullard and ECB governor de Galhau. Uncertainty on Spain/Catalonia remains a wild card for the euro, but currently we don't see a big impact on the single currency.

R2	1,2225	-1d
R1	1,2167	
EUR/USD	1,1711	-0,0048
S1	1,1662	
S2	1,1311	



EUR/USD: nears 1.1662 support. Will the payrolls force the break?



USD/JPY nears recent ST top

From a technical point of view EUR/USD hovered in a consolidation pattern between 1.1823 and 1.2070, but broke below last week. **There was some hesitation in the USD rebound, but the pair holds below the 1.1823 previous range bottom.** Higher US yields are needed to support additional USD gains. Next support in EUR/USD comes in at 1.1662, while 1.1423 marks the 38% retracement from the 2017 rally. EUR/USD is captured in a sell-on-upticks pattern.

The USD/JPY momentum was constructive of late, but for an important part due to yen weakness. USD sentiment recently also improved though. USD/JPY regained 110.67/95 (previous resistance), a short-term positive. The 114.49 correction top is the next important resistance. The rally lost momentum this week and underperformance the overall USD rebound. So a break beyond 144.49 probably is not evident.

Sterling sell-off accelerates

Yesterday, sterling came under more pressure after the failed key note speech of UK PM May. The 'event' brought additional uncertainty on the political support for PM May and weighed on sterling. **The EUR/GBP short-squeeze accelerated as the pair broke the 0.8900/07 resistance area. BoE 's McCafferty, as expected, spoke hawkish.** He expects economic slack to disappear quickly and saw CPI persistently overshooting the target. **His view iss well-know and was ignored.** EUR/GBP closed the session at 0.8927. Cable finished the day at 1.3119, a substantial additional loss from Wednesday's close (1.3248).

Today, UK Halifax House prices and the Q2 unit labour costs will be published. However, the focus for sterling trading will be on the internal political developments. According to rumours, up to 30 lawmakers already support a campaign to replace May as prime minister. The risk of a political vacuum causes further sterling losses this morning. **The pound will probably remain vulnerable as long as this topic dominates to financial and political headlines. Sterling again looks like a falling knife, especially the decline of cable is becoming quite impressive...**

EUR/GBP made an strong uptrend since April to set a top at 0.9307 late August. **UK price data amended the dynamics** and hawkish BoE comments reinforced a sterling rebound. Medium term, we maintain a **EUR/GBP buy-on-dips approach as we expect the mix of euro strength and sterling softness to persist.** The prospect of (limited) withdrawal of BOE stimulus triggered a good sterling countermove. **However, this rebound has apparently run its course.** EUR/GBP supports at 0.8743 and 0.8652 are probably difficult to break. **We look to buy EUR/GBP on dips. Yesterday's** rebound above the 0.89 area improved the ST technical picture of EUR/GBP. **0.9026 is 50% retracement of the recent countermove.**

R2	0,9415	-1d
R1	0,9307	
EUR/GBP	0,8927	0,0051
S1	0,8743	
S2	0,8657	



EUR/GBP: clears 0.89 resistance area



GBP/USD: decline accelerates

Calendar

Friday, 6 October		Consensus	Previous
US			
14:30	Change in Nonfarm Payrolls (Sep)	80K	156k
14:30	Change in Private Payrolls (Sep)	72k	165k
14:30	Change in Manufact. Payrolls (Sep)	8k	36k
14:30	Unemployment Rate (Sep)	4.4%	4.4%
14:30	Average Hourly Earnings MoM / YoY (Sep)	0.3%/2.5%	0.1%/2.5%
14:30	Average Weekly Hours All Employees (Sep)	34.4	34.4
14:30	Labor Force Participation Rate (Sep)	--	62.9%
16:00	Wholesale Inventories MoM (Aug F)	1.0%	1.0%
Canada			
14:30	Net Change in Employment (Sep)	15.0k	22.2k
Japan			
02:00	Labor Cash Earnings YoY / Real Cash Earnings YoY (Aug)	A 0.9%/0.1%	-0.6%/-1.1%
UK			
09:30	Halifax House Prices MoM & 3Mths/Year (Sep)	0.0%/3.6%	1.1%/2.6%
10:30	Unit Labor Costs YoY (2Q)	--	2.1%
Germany			
08:00	Factory Orders MoM / WDA YoY (Aug)	0.7%/4.7%	-0.7%/5.0%
Italy			
10:00	Retail Sales MoM / YoY (Aug)	0.2%/0.8%	-0.2%/0.0%
Spain			
09:00	Industrial Production MoM (Aug)	0.2%	-0.3%
Norway			
08:00	Industrial Production MoM / WDA YoY (Aug)	--/--	0.7%/0.5%
Events			
14:00	BOE's Haldane Speak at Event in London("the great trust shift" debate)		
15:15	Fed's Bostic Speaks at Fed's Workforce Conference (Q&A)		
15:30	ECB's de Galhau on eco recovery & monetary policy, Nowotny moderates in Vienna		
18:15	Fed's Dudley speaks on Mon.Policy and importance of higher education for mobility		
18:45	Fed's Kaplan Speaks at Fed's Workforce Conference		
19:00	Fed's Bullard Speaks on Economy in St. Louis		

10-year	Close	-1d	2-year	td	-1d	Stocks	Close	-1d	
US	2,35	0,03	US	1,49	0,02	DOW	22775,39	113,75	
DE	0,46	0,00	DE	-0,70	0,01	NASDAQ	6585,356	50,73	
BE	0,73	-0,01	BE	-0,53	0,00	NIKKEI	20690,71	62,15	
UK	1,39	0,01	UK	0,46	0,01	DAX	12968,05	-2,47	
JP	0,06	0,01	JP	-0,13	0,00	DJ euro-50	3613,54	18,63	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,04	1,87	0,92	Eonia	-0,3590	0,0000			
5y	0,24	2,03	1,09	Euribor-1	-0,3720	0,0010	Libor-1	1,2378	0,0000
10y	0,90	2,30	1,42	Euribor-3	-0,3290	0,0000	Libor-3	1,3467	0,0000
				Euribor-6	-0,2720	0,0010	Libor-6	1,5141	0,0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,1711	-0,0048	EUR/JPY	132,13	-0,47	CRB	182,94	1,65	
USD/JPY	112,82	0,06	EUR/GBP	0,8927	0,0051	Gold	1273,20	-3,60	
GBP/USD	1,3119	-0,0129	EUR/CHF	1,1457	-0,0010	Brent	57,00	1,20	
AUD/USD	0,7795	-0,0070	EUR/SEK	9,5343	0,0109				
USD/CAD	1,2565	0,0089	EUR/NOK	9,3755	0,0170				

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