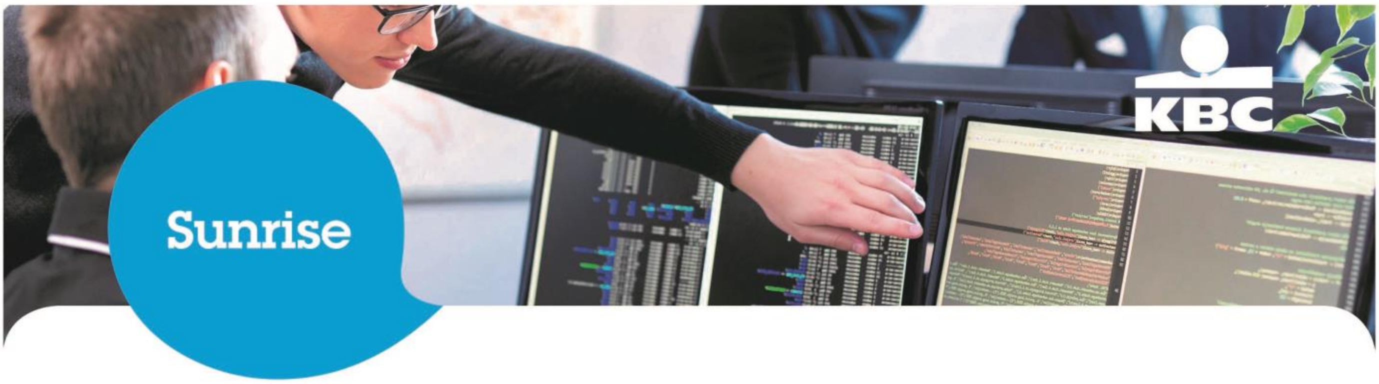


Friday, 07 December 2018

Rates: Will calm return to (interest rate) markets?

European equity markets had their worst performing day since the Brexit referendum in June 2016. Risk-aversion supported core bonds, pushing yields below some key support levels. Calm returned on US markets however and continued in Asia this morning. Can sentiment improve in Europe as well? US payrolls catch the eye on the eco calendar today.

Currencies: dollar little affected by sharp swings in equities and interest rates

The dollar lost temporary ground yesterday as markets further question the US growth outlook and the possible consequences for the Fed policy. However, in the end, EUR/USD held perfectly with the established range. Today, the US payrolls, global risk sentiment and the OPEC meeting are the potential drivers for USD trading. We expect current EUR/USD consolidation to continue.

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 stock markets** opened deeply in red yesterday but recovered gradually intraday. Losses were eventually limited to -0.3%. Nasdaq ended in green. **Asia** is trading with gains this morning, with Chinese indices lagging behind.
- Following a similar statement from China, **Trump tweeted his confidence in reaching a trade deal** within the truce period. The tweet came after Canada's arrest of a top Huawei executive sparked trade fears just days after the truce.
- **During an Opec meeting on Thursday, members agreed to slow oil production** to halt the recent price slide but failed to agree on about how to share the cuts. Opec+ meets today but the Saudi energy minister isn't confident to reach a deal.
- As of tomorrow, **Merkel is no longer the leading lady of the CDU party as the party gathers to elect a new n° 1 today**. The leading candidates are the centred Kramp-Karrenbauer – Merkel's protégé – and the more right-leaning Merz.
- **BoJ's Kuroda defended his ETF-buying before parliament.** The programme is facing criticism of distorting the stock market. However, with inflation well below the 2% target, it's premature to consider ending the purchases, he said.
- **PM May is said mulling a delay of next week's Brexit vote.** That would buy her time to ask for more concessions from Brussels. However, the latter said it is waiting to see what happens in the vote before deciding about any concessions.
- **Today's economic calendar** provides markets with US payrolls data and the Michigan consumer confidence. We also keep an eye at Canada's job report. Fed's Brainard is scheduled to speak.

Rates

Calm to return, at least temporary?

	US yield	-1d
2	2,76	-0,03
5	2,74	-0,03
10	2,90	-0,02
30	3,14	-0,01

	DE yield	-1d
2	-0,62	-0,02
5	-0,32	-0,03
10	0,24	-0,04
30	0,88	-0,05

European equity markets had their worst performance since the Brexit referendum in June 2016, with losses over 3%. Markets took a breather on Wednesday with US markets being closed, but the global equity selloff continued on Thursday. And how. The arrest of Huawei CFO in Canada, with the US seeking her extradition, lighted the fuse. **Investor hopes of US-Sino trade talk progress vanished like smoke in the wind**, despite attempts of both sides to reassure markets. Risk deterioration took over for the rest of the day, as there was no European data to calm investors. **German yield curve bull flattened with changes ranging from -1.8 bps (2-yr) to -5.1 bps (30-yr).** In the run up to US openings, market moves accelerated. US economic data missed expectations by a small margin, but wei remained strong whatsoever. **Dallas Fed president Kaplan struck a cautious tone on US growth and urged for patience.** Different sources suggest that the FED will signal a new wait-and-see mentality after a likely interest-rate increase at the next meeting of Dec. 18-19. US markets first continued the 'all hands on deck" sentiment with US equity markets falling at opening and US Treasuries edging up. However, markets calmed afterwards. **US equities stranded around Wednesday's close, while US Treasuries paired most of its intraday gains. The US yield curve bull steepened** with changes from -1.0 bp (30-yr) to -3.5 bps (2-yr).

The improved sentiment on US markets continues in Asia this morning, as the major Asian-Pacific equity benchmarks moved up for the final session of the week. China is lagging behind. **OPEC meets today for the final meeting of its Vienna summit further discussing a possible supply cut.** Sources confirmed they agreed on a cut of 1 million barrels a day, but remain in disregard on how to divide. Russia joins discussions today, with the Saudi Arabian energy minister striking a pessimistic tone on a deal being made by tonight. A negative outcome is a wildcard. **We suspect downward pressure for the German Bund at opening**, in a catch up with US Treasuries.

Today's eco calendar contains the University of Michigan consumer expectations and the **US payrolls report**. Markets expect that 199k new jobs are created in November, down from 250k the month before. The unemployment rate (3.7%) and the weekly earnings (0.3% M/M, 3.1% Y/Y) are expected to be stable. We don't expect surprises and if any, they will need to be big to rattle investors even more. Canada joins the US in publishing labour data. Fed's Williams and Brainard speak today, as does BoE's chair Powell.

German 10-yr yield: the break below 0.28% support implies further move south towards absolute key 0.18%. Can it bounce back?

US 10-yr yield loses important support, suggesting technical retracement towards 2.78%/2.8%

Currencies

R2	1,1815	-1d
R1	1,1621	
EUR/USD	1,1374	0,0030
S1	1,1187	
S2	1,1119	

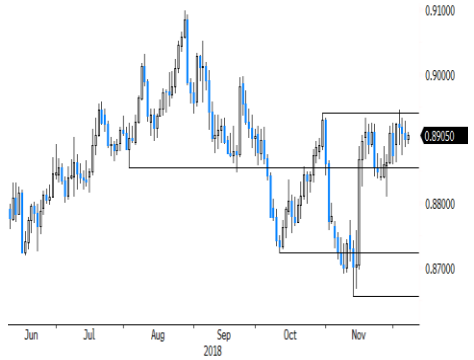
R2	0,8997	-1d
R1	0,894	
EUR/GBP	0,8899	-0,0011
S1	0,8700	
S2	0,862	

USD hardly reacts to swings on other markets

The global risk-off repositioning continued with vigour **yesterday** as investors feared a flaring up of US China trade-tensions. Initially, the risk-off trade had only moderate impact on EUR/USD or USD/JPY. At the start of the US session, US yields and the dollar faced another forceful (temporary) setback. US 2-year yields spiked lower and the dollar suffered. The move was probably the result of both of modest ADP job growth and cautious comments from Fed's Kaplan. However, part off the risk-sell-off was reversed later. At the same time, US yields and the dollar also showed signs of intraday bottoming. EUR/USD closed at 1.1374 (from .1344). USD/JPY also closed off the intraday low at 112.68 (from 113.19 on Wednesday). **Overnight,** Fed's Powell in a speech maintained a positive assessment on the economy and on the US labour market. The direct impact on US yields and the dollar was modest. Most Asian equity markets try a cautious rebound after recent sell-off, but it is much too early to draw firm conclusions. The dollar is gaining marginal ground against the euro and the yen. The eco calendar contains the US payrolls **today** and, of lesser importance, the Michigan consumer confidence. US November payrolls growth is expected to 'ease' to 198k (from a strong 250k). Wage growth is expected at 0.3% M/M and 3.1% Y/Y. **Maybe risks are for a slightly softer payrolls report.** Question is whether a mildly soft figure should cause a further decline in US yields and/or the dollar. The jury is out, but if the decline in US yields and the USD slows, it might be an indication that enough growth uncertainty is discounted after recent repositioning. This might be marginally USD supportive. That said, the repositioning in the first place occurred in the equity and interest rate markets. **For now, we don't see a trigger for EUR/USD to start a new directional trend.** More technical driven trading in the 1.12/1.15 range might be on the cards.

The political debate preparing next week's Brexit vote in Parliament continued yesterday. All kinds of proposals/options are aired, including a delay of the vote. However, for now, visibility on the outcome of the process remains very low. In this context we expected more erratic directionless EUR/GBP trading going into the weekend. For now, we see no trigger for a sustained sterling comeback.

EUR/USD hold tight sideways range despite sharp swings in global equities and interest rates.



EUR/GBP going nowhere as outcome of Brexit process remains highly uncertain

Calendar

Friday, 7 December		Consensus	Previous
US			
14:30	**Change in Nonfarm Payrolls (Nov)**	**198k**	**250k**
14:30	Change in Private Payrolls (Nov)	198k	246k
14:30	Change in Manufact. Payrolls (Nov)	18k	32k
14:30	**Unemployment Rate (Nov)**	**3.7%**	**3.7%**
14:30	Underemployment Rate (Nov)	--	7.4%
14:30	**Average Hourly Earnings MoM / YoY (Nov)**	**0.3%/3.1%**	**0.2%/3.1%**
14:30	Labor Force Participation Rate (Nov)	62.9%	62.9%
16:00	Wholesale Inventories MoM (Oct F)	0.7%	0.7%
16:00	**U. of Mich. Sentiment (Dec P)**	**97.0**	**97.5**
16:00	U. of Mich. Current Conditions (Dec P)	--	112.3
16:00	U. of Mich. Expectations (Dec P)	--	88.1
16:00	U. of Mich. 1 Yr Inflation (Dec P)	--	2.8%
16:00	U. of Mich. 5-10 Yr Inflation (Dec P)	--	2.6%
Canada			
14:30	**Net Change in Employment (Nov)**	**10.0k**	**11.2k**
14:30	**Unemployment Rate (Nov)**	**5.8%**	**5.8%**
14:30	**Hourly Wage Rate Permanent Employees YoY (Nov)**	**1.8%**	**1.9%**
14:30	Full Time Employment Change (Nov)	--	33.9
14:30	Part Time Employment Change (Nov)	--	-22.6
14:30	Participation Rate (Nov)	65.2	65.2
Japan			
00:30	Household Spending YoY (Oct)	-0.3%A	-1.6%
01:00	Labor Cash Earnings YoY (Oct)	1.5%A	0.8%R
01:00	Real Cash Earnings YoY (Oct)	-0.1%A	-0.6%R
China			
	Foreign Reserves (Nov)	$3045b	$3053.10b
UK			
09:30	Halifax House Prices MoM / 3Mths/Year (Nov)	0.2%/1.0%	0.7%/1.5%
10:30	BoE/TNS Inflation Next 12 Mths (Nov)	--	3.0%
EMU			
11:00	Gross Fix Cap QoQ (3Q)	0.6%	1.4%R
11:00	Govt Expend QoQ (3Q)	0.3%	0.4%
11:00	Household Cons QoQ (3Q)	0.2%	0.2%
11:00	GDP SA QoQ / YoY (3Q F)	0.2%/1.7%	0.2%/1.7%
Germany			
08:00	Industrial Production SA MoM / WDA YoY (Oct)	0.3%/2.1%	0.2%/0.8%
08:00	Labor Costs SA QoQ / WDA YoY(3Q)	--/--	0.2%/2.0%
France			
08:45	Industrial Production MoM / YoY (Oct)	0.7%/-1.4%	-1.8%/-1.1%
08:45	Manufacturing Production MoM / YoY (Oct)	0.9%/-1.5%	-2.1%/-1.0%
Italy			
10:00	Retail Sales MoM / YoY (Oct)	--/1.8%	-0.8%/-2.5%
Norway			
08:00	Industrial Production MoM / WDA YoY (Oct)	--/--	-1.5%/0.7%
Events			
00:30	**Fed's Williams Holds Discussion With Mervyn King in NY**		
00:45	**Powell Gives Brief Welcome Remarks at Housing Conference**		
18:00	**Brainard Speaks at Peterson Institute in Washington**		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	2,90	-0,02		US	2,76	-0,03	DOW	24947,67	-79,40
DE	0,24	-0,04		DE	-0,62	-0,02	NASDAQ	7188,258	29,83
BE	0,73	-0,02		BE	-0,56	-0,02	NIKKEI	21678,68	177,06
UK	1,25	-0,07		UK	0,74	-0,01	DAX	10810,98	-389,26
JP	0,06	-0,01		JP	-0,14	0,00	DJ euro-50	3045,94	-104,33
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0,01	2,91	1,23	Eonia	-0,3590	-0,0010			
5y	0,27	2,89	1,30	Euribor-1	-0,3680	-0,0010	Libor-1	2,3833	0,0000
10y	0,85	2,97	1,46	Euribor-3	-0,3150	0,0010	Libor-3	2,7658	0,0000
				Euribor-6	-0,2460	0,0000	Libor-6	2,8911	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1374	0,0030		EUR/JPY	128,17	-0,24	CRB	181,30	-2,45
USD/JPY	112,68	-0,51		EUR/GBP	0,8899	-0,0011	Gold	1243,60	1,00
GBP/USD	1,2781	0,0047		EUR/CHF	1,1295	-0,0023	Brent	60,06	-1,50
AUD/USD	0,7236	-0,0032		EUR/SEK	10,2236	0,0359			
USD/CAD	1,3383	0,0028		EUR/NOK	9,6965	0,0498			

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