



**Monday, 07 October 2019**

### Rates: Neutral payrolls end core bond run

Friday's neutral payrolls ended a run of weak US eco data and the accompanying rally in US Treasuries. Geopolitical headlines suggests roadblocks in US-Sino trade talks, US-North Korean nuclear discussions and EU-UK Brexit negotiations. Risk sentiment is neutral though despite these negative titles. Today's eco calendar is empty.

### Currencies: EUR/USD fails to break 'meaningful' technical level despite mixed US data

US payrolls were good enough last Friday to prevent a further USD correction after soft US data earlier last week. EUR/USD is trading off recent lows, but shows no convincing upside momentum. A break above the 1.1020 trend line is not evident given global investor uncertainty. Fed comments/guidance remains a wildcard.

### Calendar

## Headlines

- **WS** closed the week in green (+1.4%) after a 'not too hot, not too cold' job report. **Overnight sentiment** is rather decent despite China striking a harder tone on trade. Australia outperforms (+0.7%).
- **Chinese officials are increasingly reluctant to agree to a broad trade deal** pursued by US president Trump. The yuan weakened, the yen rose. Markets are hoping for a potential truce as the global economy is teetering on the edge.
- **Portugal's ruling Socialists won Sunday's election** but didn't get a majority, meaning PM Costa again needs the support of (one of) his allies in the previous legislature. Costa warned negotiations could be "more complex" this time.
- **The NY Fed will extend its repo market interventions into November.** They started September, when money markets rates abruptly soared. It will inject \$75bn in overnight loans every day and also conduct term-repo operations.
- **Turkey will launch a military operation in the north of Syria to fend off Kurdish fighters at the border.** The Kurdish YPG fought with the US against IS but is considered a terrorist organization by Turkey.
- **Brexit talks have stalled and the EU expressed pessimism** on reaching an agreement before Oct. 31. Meanwhile, PM Johnson is prepared to take the Benn Act, which forces him to ask for an extension, to the Supreme Court.
- **Today's economic calendar** is little inspiring, leaving trading up to global sentiment ahead of key events later this week (Fed's minutes, start of renewed trade US/Sino trade talks).

# Rates

## Tensions ease after neutral payrolls



**Friday's trading session was all about non-farm payrolls.** Dismal ISM's caused US Treasury outperformance in the run-up to the release with investors fearing first signs of weakness in the US labour market. **Payrolls eventually printed near consensus with a further declining unemployment rate cancelling out slower wage growth. In a first reaction, some decided to take some chips off the table. This profit taking move didn't went far though with bonds eventually closing near opening levels.** US stock markets (+1.5%) outperformed as payrolls weren't bad enough to add to recession fears and weren't good enough to dim Fed rate cut expectations. The US yield curve eventually flattened with yield changes ranging between +1.6 bps (2-yr) and -1.7 bps (30-yr). Fed Chair Powell didn't really touch on the economic/monetary outlook in a brief speech. Boston Fed Rosengren, who twice voted in favour of keeping rates unchanged rather than cutting them, turned more neutral. He has an "open mind" on the next decision and is watching consumer spending to see if growth is weakening further. Dovish Atlanta Fed Bostic indicated that the Fed might have to do more. Changes on the German yield curve remained limited to +-1bp. 10-yr yield spread changes vs Germany were nearly unchanged.

Asian stock markets are mixed this morning with China still closed. Core bonds hover sideways. Geopolitical headlines suggest more cracks in US-Sino trade talks, US-North Korean nuclear talks and EU-UK Brexit negotiations. **Despite all these negative headlines, risks sentiment is rather neutral.**

Today's eco calendar is empty. **General sentiment and technical factors will set the tone for trading. We have no strong bias for core bonds.** Attention shifts to Minutes of the previous ECB/Fed meetings and an avalanche of central bank speeches later this week. Chinese officials visit the US for high level trade talks. The US Treasury holds its mid-month refinancing operation with 3y, 10y and 30y auctions scheduled.

**Technically,** the German 10-yr yield and US 10-yr yield both rebounded away from August lows following ECB/Fed September policy meetings. Both fell short of really testing first resistance levels, respectively at -0.41% and 1.94% as disappointing eco data ended the run. Going forward, we expect range trading with August lows protecting the downside (German 10y: -0.73%; US 10y: 1.43%).



German 10-yr yield: spill-over effects from lower US yields remain rather small



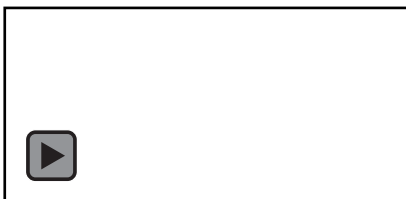
US 10-yr yield: sideways range between 1.43% and 1.94%. Drift to lower bound on the back of recent eco data weakness

# Currencies

## Data not weak enough to cause 'big' USD decline



The trilogy of key US data was supposed to reach a climax with the payrolls on Friday. However, the report was mixed/less negative than the ISM's. Job growth was close to expectations, the unemployment rate declined to a multi-decade low (3.5%) but wage growth disappointed. **The dollar rebounded briefly after the report, but in the end showed no clear directional move.** Fed governors mostly keep the door open for further stimulus but didn't give very concrete guidance on the timing. EUR/USD closed at 1.0979 (from 1.0965). USD/JPY finished the day almost unchanged (106.94) despite a nice risk rebound.



**Overnight**, several Asian markets are closed or trading in low volume modus. Major indices are mixed, mostly slightly higher, to a large extent ignoring a strong WS close on Friday. Press reports suggest that US-China trade talks aren't going smoothly. High level talks are expected to resume on Thursday. The yuan is under pressure (USD/CNY 7.1480 area). EUR/USD is trading little changed in the 1.0980 area. USD/JPY is losing marginally (106.85).

The eco calendar is thin and backloaded (US CPI on Thursday, Michigan consumer confidence on Friday). USD traders will keep close in eye on the Fed communication (Fed speakers including Powell and the Fed Minutes). The US China trade talks are a wildcard (limited deal?).

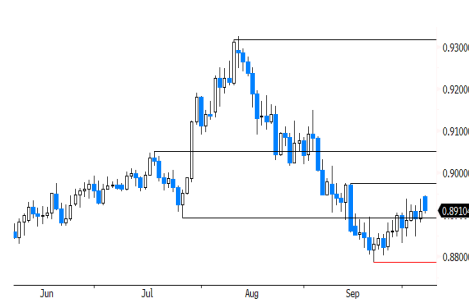
**Last week, the dollar eased off recent tops after poor US ISM's and a loss of interest rate support.** However, USD losses against the likes of the euro remained modest as the relative eco picture hampers any sustained euro gains. Markets anticipate further Fed easing this and next year, but the payrolls were not weak enough to trigger outright further USD losses. EUR/USD is trading off recent low (1.0879) but is holding below the trendline (today near 1.1025). We still find the EUR/USD performance disappointing. More soft US data and/or more outspoken 'engagement' of the Fed is probably needed for sustained EUR/USD gains. For now, we don't anticipate a big leap higher in EUR/USD.

**Sterling (EUR/GBP) is still captured in a some kind of erratic trading pattern as markets see little clues on the next steps in the Brexit saga.** (Technical)

negotiations with the EU are reported to be difficult after Johnson did a new proposal on the Irish backstop. Press articles also suggest that Johnson might take legal action against the law forcing him to as for delay in case of no deal. We stay cautious/reluctant on sterling longs as long as this unpredictable process continues.



EUR/USD fails to regain trendline coming in near 1.1020 despite soft US eco data



EUR/GBP: markets/sterling await outcome of new UK Brexit proposal.

# Calendar

Monday, 7 October		Consensus	Previous
<b>US</b>			
07OCT-11OCT	Monthly Budget Statement (Sep)	\$82.5b	\$119.1b
21:00	Consumer Credit (Aug)	\$15.000b	\$23.294b
<b>EMU</b>			
10:30	Sentix Investor Confidence (Oct)	-13.0	-11.1
<b>Germany</b>			
08:00	Factory Orders MoM/WDA YoY (Aug)	-0.3%/-6.4%	-2.70%/-5.60%
<b>Events</b>			
00:45	Fed's George Speaks at NABE Conference in Denver (voter)		
16:20	Kashkari Discusses Fed's Work on Native American Reservations (non-voter)		

10-year	td	-1d		2-year	td	-1d		Stocks	td	-1d
US	2,44	0,00		US	1,19	0,00		DOW	19762,6	0,00
DE	0,18	-0,03		DE	-0,79	-0,02		NASDAQ	5383,117	0,00
BE	0,51	-0,04		BE	-0,69	-0,02		NIKKEI	19114,37	0,00
UK	1,24	0,00		UK	0,08	0,00		DAX	11575,57	94,51
JP	0,05	0,00		JP	-0,18	0,00		DJ euro-50	3302,48	11,96
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	td	-1d
3y	-0,11	1,69	0,69	Eonia	-0,3290	0,0000		Libor-1	0,7717	0,0000
5y	0,06	2,00	0,86	Euribor-1	-0,3680	0,0000		Libor-3	0,9979	0,0000
10y	0,64	2,34	1,23	Euribor-3	-0,3190	0,0000		Libor-6	1,3177	0,0000
				Euribors-6	-0,2210	0,0000				
Currencies	td	-1d		Currencies	td	-1d		Commodities	td	-1d
EUR/USD	1,0487	-0,0036		EUR/JPY	123,15	0,11		CRB	192,51	0,00
USD/JPY	117,43	0,52		EUR/GBP	0,8510	-0,0015		Gold	1151,70	0,00
GBP/USD	1,2326	-0,0018		EUR/CHF	1,0714	-0,0008		Brent	56,82	0,00
AUD/USD	0,717	-0,0040		EUR/SEK	9,5408	-0,0323				
USD/CAD	1,3417	-0,0024		EUR/NOK	9,0556	-0,0236				

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