Monday, 09 December 2019

Rates: Cautious bias given huge event risk

Losses on core bond markets remained rather limited last Friday given stellar payrolls, positive risk sentiment and higher oil prices. We start the week with a cautious (ie positive) bias for core bonds given huge event risk this week with Fed/ECB meetings, UK general elections, US retail sales, a US tariff deadline and the possible start of US House impeachment votes.

Currencies: Dollar gains only modestly after strong payrolls. Sterling rally continues

The dollar wasn't able to take full advantage after Friday's strong US payrolls report, indicating some investor caution on the US currency. USD/JPY even closed the day in negative territory. There is plenty of event risk this week. For now, we see limited upside for the dollar. The pre-election sterling short-squeeze simply continues.

Calendar

Headlines

- **US stock markets** rose up to 1.22% (Dow Jones) after a strong batch of data including stellar November payrolls. **Asian equities** lack clear guidance this morning. Japan (+0.4%) outperforms and China underperforms.
- **Chinese exports shrank 1.1% y/y in November,** data showed this weekend. It has been the seventh decline already this year. Exports to the US tumbled some 23%, the worst result since February and a 12th straight monthly decline.
- **Oil prices jumped on Friday after Saudi Arabia announced it will voluntarily cut 400 000 barrels a day** (to 9.7m barrels per day), provided the OPC+ members would stick to their own production cut promises. Brent oil is trading at $64/b.
- **Germany's SPD party members rejected an immediate leave from the coalition** with Merkel's CDU during the convention last weekend. They did back demands for more leftist stance of the 'Grand Coalition'.
- **The US will probably exercise a veto against new WTO judges being appointed** to replace two others with terms expiring soon. Doing so would render the WTO's dispute settlement system unable to function.
- **WH trade advisor Kudlow said on Friday the US and China are trying to agree on the amount of agricultural purchases,** adding that the two are in "almost-around-the-clock" negotiations but that no meeting is planned at present.
- **Today's eco calendar** is close to empty. Investors await the Fed (Wednesday) and ECB (Thursday) meetings. UK elections on Thursday and looming increased US tariffs also keeps investors also guarded. The US taps the bond market.

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	→

Rates

	US yield	-1d
2	1.61	0.02
5	1.66	0.03
10	1.84	0.03
30	2.27	0.02

	DE yield	-1d
2	-0.63	0.00
5	-0.54	0.01
10	-0.29	0.01
30	0.24	0.02

Cautious bias given huge event risk

Stellar US payrolls marked the end of last week's volatile trading. The US economy added 266k jobs in November, overshooting 180k consensus, with the previous 2 months' numbers being upwardly revised by 41k. The unemployment rate matched multidecade lows (3.5%). Core bonds sold off on the report with US Treasuries obviously underperforming German Bunds. **We believe that losses remained contained given strong payrolls and adding positive risk sentiment (US bourses +1%) and higher oil prices (deeper production cuts by Saudi Arabia on OPEC meeting).** US yields added 1.8 bps (30-yr- to 3 bps (5-yr) across the curve. The German yield curve steepened with daily changes varying between -0.2 bps (2-yr) and +1.4 bps (30-yr). 10-yr yield spread changes vs Germany ended close to zero with Greece (-4 bps) and Italy (-3 bps) outperforming.

Asian stock markets trade mixed overnight with **China underperforming.** Chinese November trade data showed a continuing decline in total exports while the FT reports that the Chinese government instructed state offices and public institutions to remove foreign computer gear and software within three years. Core bonds trade with a small upward bias.

Today's eco calendar isn't really enticing apart from tonight's $38bn 3-yr Note auction in the US. **Event risk looms large this week though, suggesting investors might start with a cautious (ie positive) bias for core bonds.** The **Fed** meets on Wednesday and is expected to stay put following three rate cuts earlier this year. The fresh dot plot probably indicates the central bank's preference to stay on hold in the 2020 election year, awaiting more signs of the economy gathering fresh momentum. The **ECB** is up next on Thursday with President Lagarde's inaugural meeting. The ECB will stay on hold as well, but we are eager to find out which accents Lagarde will stress. The **UK general election,** with PM Johnson's Conservative party leading comfortably, also takes place on Thursday and could influence the Bund and US Note future through the UK Gilt Market. From a data point of view, we have **US retail sales** on Friday with consensus forecasting another decent figure (0.4% M/M). The icing on the cake is **Sunday's US-imposed deadline to add import tariffs on Chinese goods.** US and Chinese negotiators seem to be in the final inning for a phase one trade deal. Will they be able to deliver this week and avoid additional charges? **The possible start of House Impeachment votes serves as a wildcard.**

Technically, the German 10-yr yield broke above -0.41% resistance as geopolitical uncertainty diminished, 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

Dollar gains only modestly on strong payrolls

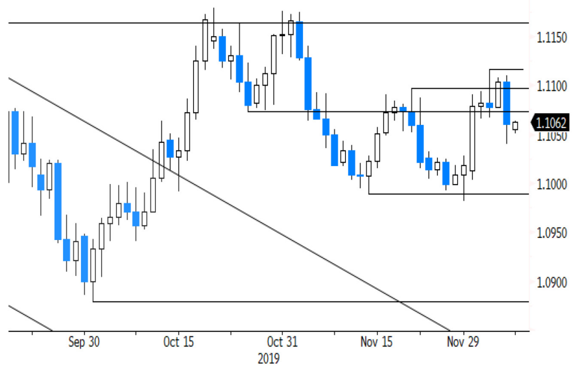
R2	1.1533	-1d
R1	1.1448	
EUR/USD	1.1060	-0.0044
S1	1.0864	
S2	1.0778	

R2	0.93067	-1d
R1	0.91	
EUR/GBP	0.8417	-0.0022
S1	0.8500	
S2	0.8314	

USD sentiment had turned a bit more cautious last week. The payrolls could decide whether there was room for further profit taking. There wasn't. The payrolls were very strong and rubberstamped the Fed's assessment that no further rate cuts are needed. EUR/USD had returned to the 1.11 area, but the payrolls pushed the pair back lower in the 1.10 big figure. Still, the USD rebound wasn't exceptional given the strong payrolls. EUR/USD closed at 1.1060 (from 1.1104). USD/JPY even reversed the initial gain and finished lower on a daily basis (108.58 vs 108.76). So, the dollar performance wasn't that convincing after all.

Asian equities are taking a **cautious start,** underperforming the post-payrolls reaction on WS (gain of a about 1%). Japan Q3 GDP was upwardly revised to 0.4%. The prospect of the economy receiving fiscal aid next year pushed the 10-y Japanese yield back to 0.0%. **The yen is still mainly driven by global risk, but this topic might be a slightly yen supportive too.** USD/JPY hovers near 108.60. USD/JPY 108.24/107.89 is a key support. We put it on our radar. EUR/USD is holding near 1.1060.
Today, there are no important data. Later this week, the Fed and the ECB hold policy meetings and the UK will hold Parliamentary elections. As ever, headlines on the US-China trade talks will be closely monitored as the December 15 deadline when the US might impose new tariffs on Chinese goods is coming closer. Negotiations on policy amendments within the German coalition could be mildly euro supportive too.
Last week, the EUR/USD rebound was blocked at the 1.11 resistance area. However, the post-payrolls USD rebound was modest. The 1.0989/81 looks quite solide support. The jury is still out, but we slightly prefer to sell the USD on upticks.

Sterling was still captured in the well-established buy-on-dips pattern that dominated trading lately. The prospect of a Conservative election win this week continues investors to rush out of sterling short hedges. EUR/GBP is testing the 0.84 big figure this morning. The recent sterling move is driven market investor repositioning rather than (new) political news. For now, there is no reason to row against the sterling positive tide.



EUR/USD holding well within 1.10-1.11 range despite strong payrolls

EUR/GBP: sterling extends pre-election repositioning.

Calendar

Monday, 9 December		Consensus	Previous
Japan			
00:50	GDP SA QoQ (3Q F)	0.40%A	0.10%
00:50	Bank Lending Ex-Trusts YoY (Nov)	2.3%A	2.20%
05:30	Bankruptcies YoY (Nov)	1.39%A	6.84%
06:00	Eco Watchers Survey Current/Outlook SA (Nov)	39.4A/45.7A	36.7/43.7
EMU			
10:30	Sentix Investor Confidence (Dec)	-5.3	-4.5
Germany			
08:00	Trade Balance (Oct)	19.3b	21.1b
08:00	Current Account Balance (Oct)	20.0b	25.5b
08:00	Exports/Imports SA MoM (Oct)	-0.30%/-0.10%	1.50%/1.20%R
08:00	Labor Costs SA QoQ/WDA YoY (3Q)	--/--	0.80%/3.20%
France			
08:30	Bank of France Ind. Sentiment (Nov)	98	98
Events			
19:00	US to Sell USD38 Bln 3-Year Notes		

10-year	Close	-1d		**2-year**	Close	-1d	**Stocks**	Close	-1d
US	1.84	0.03		**US**	1.61	0.02	**DOW**	28015.06	337.27
DE	-0.29	0.01		**DE**	-0.63	0.00	**NASDAQ**	8656.528	85.83
BE	0.01	0.01		**BE**	-0.62	0.00	**NIKKEI**	23430.7	76.30
UK	0.77	0.00		**UK**	0.59	0.01	**DAX**	13166.58	111.78
JP	-0.01	0.00		**JP**	-0.12	0.02	**DJ euro-50**	3692.34	44.21

IRS	EUR	USD	GBP	**EUR**	-1d	-2d	**USD**	-1d	-2d
3y	-0.28	1.61	0.83	**Eonia**	-0.4550	0.0000			
5y	-0.18	1.63	0.88	**Euribor-1**	-0.4560	-0.0030	**Libor-1**	1.7151	0.0050
10y	0.11	1.77	0.98	**Euribor-3**	-0.3930	0.0020	**Libor-3**	1.8905	0.0055
				Euribor-6	-0.3330	0.0030	**Libor-6**	1.8868	-0.0014

Currencies	Close	-1d	**Currencies**	Close	-1d	**Commodities**	Close	-1d
EUR/USD	1.1060	-0.0044	**EUR/JPY**	120.18	-0.59	**CRB**	181.19	1.12
USD/JPY	108.58	-0.18	**EUR/GBP**	0.8417	-0.0022	**Gold**	1465.10	-18.00
GBP/USD	1.314	-0.0017	**EUR/CHF**	1.0954	-0.0008	**Brent**	64.39	1.00
AUD/USD	0.6841	0.0007	**EUR/SEK**	10.5045	-0.0327			
USD/CAD	1.3255	0.0081	**EUR/NOK**	10.0961	-0.0497			

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