



## Sunrise

**Tuesday, 20 October 2015**

### Core bonds show little inspiration at start of the week

Little eco news, little event news and little moves on equities together with the upcoming ECB meeting keep core bonds trading sideways oriented. This pattern may be repeated today, unless something unexpected happens. Peripherals profit from the calmness in core bond markets.

### Dollar regains slightly ground in technical trade

Yesterday, the dollar traded with a cautious positive momentum. EUR/USD drifted further south in the 1.13 big figure counting down to the ECB policy meeting on Thursday. Sterling showed a similar picture. Today, there are only second tier eco data on the calendar. So, more order-driven trading might be on the cards for the major currency cross rates.

### Calendar

## Headlines

S&P	→
Eurostoxx50	→
Nikkei	↗
Oil	→
CRB	→
Gold	↘
2 yr US	→
10 yr US	→
2 yr EMU	→
10 yr EMU	→
EUR/USD	↘
USD/JPY	↗
EUR/GBP	↘

- **European equities** closed yesterday's session in the green, resulting from a good opening, but traded mostly sideways intraday. **US equities closed the session with a** status quo after a weaker opening. Overnight, **Asian equities** are trading mixed and uneventful.
- **The PBOC is conducting its first ever overseas debt sale in the London City.** This move was properly timed to coincide with a state visit of President Xi Jinping. It is an issue of 5 billion Yuan of one-year bills.
- **The ECB slightly raised the minimum capital level** for large euro zone banks under its watch.
- **Canadian elections surprised, with Justin Trudeau elected as the new Prime Minister and the liberals taking the majority in the house of commons** with 189 of the 338 seats.
- **The RBA minutes describe an economy that is doing pretty well**, predicting inflation will reach its target over the next one or two years. The Aussie dollar climbed on the news as the **minutes don't suggest imminent easing**.
- Today the eco-calendar remains thin, with only **US housing data**. Also on the agenda are **BoE's Bailey and Carney speaking at the treasury committee**. For the Fed, **Dudley, Powell and Yellen are speaking as well**.
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# Rates

*Core bonds end little changed in dull, range-bound session*

*Peripheral yield spreads narrow*

	US yield	-1d
2	0,5926	-0,0122
5	1,3373	-0,0147
10	2,0175	-0,0123
30	2,8741	-0,0055

*US housing starts & permits only eco release*

*Fed speakers likely won't touch policy or economy*

	DE yield	-1d
2	-0,2660	-0,0020
5	-0,0350	0,0030
10	0,5590	0,0080
30	1,3250	0,0120

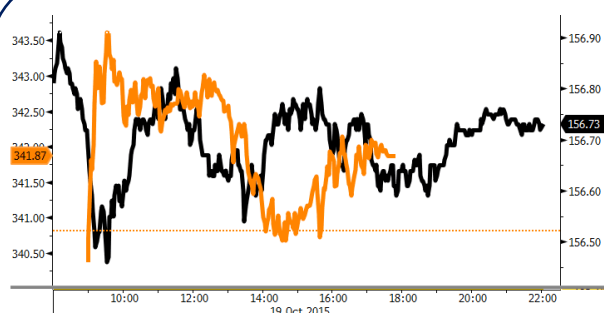
## Core bonds show little inspiration at start of the week

**Global core bonds enjoyed a quiet start to the trading week.** The eco and event calendars were nearly empty. Key Chinese eco data couldn't give clear guidance. After a strong opening, European equities erased losses, while US equities closed little changed following some intra-day gyrations. Investors probably wanted to stay sidelined ahead of the ECB meeting (Thursday) and EMU PMI's (Friday). Volumes were below average. **In a daily perspective**, US yields dropped between 2.4 bps (2-yr) and 0.2 bps (30-yr), the curve bull steepening. Changes on the German yield curve varied between +0.2 bps (2-yr) and +2.9 bps (30-yr), bear steepening the curve. **On intra-EMU bond markets**, 10-yr yield spreads versus Germany narrowed 1 to 3 bps with Portugal (-7 bps) and Greece (-36 bps) outperforming.

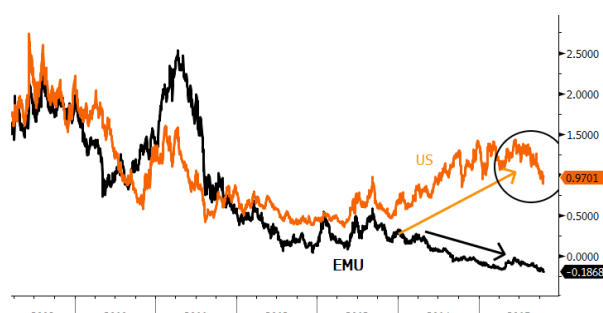
**Today**, the eco-calendar remains rather thin, with only **US housing data**.

**September Housing starts** are expected to have been 1142k, an increase of around 1.4% M/M. We don't distance us from consensus. **New building permits** are expected to have declined 0.6 M/M to around 1170k. Housing data are notorious volatile, but the trend is for gradual improvement (higher starts & permits). **Fed governors Dudley, Powell and Yellen** speak. The former two speak at a conference on "The structure of the US Treasury market". Yellen gives welcoming remarks. So, we don't expect market moving comments.

The **EMU calendar** is more enticing later this week with especially the **ECB meeting (Thursday)**. We don't expect the ECB to take yet additional measures, but **mr. Draghi may lay the groundwork for additional easing at the December meeting**. (see KBC flash to be published later today). However, overnight comments of ECB Noyer and weekend comments of Nowotny strongly suggest that no decisions will be taken next Thursday. The other main event are the **PMI business confidence surveys (Friday)**. A very modest deterioration is expected.



*Bund future (black) & EuroStoxx (orange): Good start equities aborted, pushing Bunds off stronger opening levels, followed by quiet sideways trading*



*US and German 1yr/1yr forward rates: Divergence in expected monetary orientation is clear, but US 1yr/1yr now shows signs of pricing out more Fed rate hikes.*

R2	160,62	-1d
R1	157,67	
<b>BUND</b>	<b>156,73</b>	0,0000
S1	155,77	
S2	153,5	

## Today: Waiting game continues

**Overnight**, Asian stock markets trade mixed in a range-bound session. Price action on currency and rate markets is also reduced to an absolute minimum. News flow was thin apart from comments by SF Fed governor Williams. He affirmed that he thinks it's time to start raising rates in the near future.

**Today's eco calendar remains thin with only US housing data (starts/permits). Topics of Fed speakers (Dudley & Powell) suggest that they won't comment on monetary policy, while Yellen just gives opening remarks.** So overall, we don't expect today's calendar to influence bond markets. **Risk sentiment on equity markets is key with main US and EMU indices approaching important (hard-to-break?!) resistance levels.** Profit taking in stock markets could trigger some safe haven flows. Thursday's ECB meeting will likely hold EMU rates under downward pressure (dovish bias).

After the dovish September FOMC meeting, we eyed a return to the contract high for the US Note future, but we didn't anticipate a break higher. That last assumption is under new pressure as markets push a Fed lift-off well into 2016, while also anticipating additional QE by the ECB. A new decline in equity prices could further fuel core bonds at this stage. **We are neutral for core bonds. A test of the contract highs is very likely.**



German Bund: test upper bound failed and back in ST range. Longer term uptrend still intact.



US Note future: New test of high likely

# Currencies

## FX trading: one long yawn

### EUR/USD and USD/JPY stabilize

R2	1,1714	-1d
R1	1,1495	
EUR/USD	1,1332	-0,0044
S1	1,1306	
S2	1,1087	

### No moves in Asia

### US housing starts & permits for release

### Some come-back of the dollar this week?

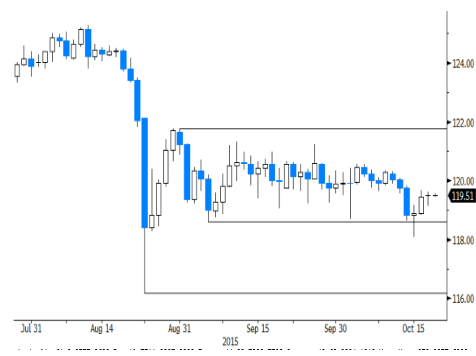
**Yesterday.** FX trading started the week in slow motion and never found firm direction, even not after the release of key Chinese data (see yesterday's report). The European eco and event calendars were nearly empty. After a strong start, European equities gradually erased gains, as key resistance played its role (343 for the EuroStoxx 600). Yield changes for both US and German bonds were small. **Technical range trading prevailed on FX markets. In a daily perspective, EUR/USD closed at 1.1327, versus 1.1350 on Friday, while USD/JPY ended the session at 119.50, little changed from 119.44 on Friday.**

**Overnight,** trading continues to hang on without momentum. Movements are even smaller than yesterday. EUR/USD is changing hands at 1.1330 and holds in a 15 pips range. Similarly, USD/JPY trades at 119.50, unchanged from yesterday's close and in an overnight range of .....10 ticks. There were no eco releases and Asian equities trade narrowly mixed.

**Today,** the eco-calendar remains rather thin, with only US housing data. **September Housing starts** are expected at 1142k, an increase of around 1.4% M/M. We don't distance us from consensus. New building permits are expected to have declined 0.6 M/M to around 1170k. Fed governors **Dudley, Powell and Yellen** will speak. The former two speak at conference on "The structure of the US Treasury market". Yellen gives welcoming remarks. We don't expect market moving comments. So, the focus for currency trading remains on earnings/equities and on the Thursday's ECB policy meeting. We don't expect the ECB to take additional measures yet but **Mr. Draghi may lay the groundwork for extra easing. In this context, we expect more sideways trading in EUR/USD with the topside being rather well capped going into the ECB policy meeting.**



EUR/USD: drifting sought as upside test was rejected



USD/JPY returning back into well-known territory

**Global markets struggle to assess the health of the global economy and its impact on monetary policy.** Of late (currency) markets were focused on the impact of weaker US data on the Fed rate hike path. This made the dollar vulnerable short term. However, in absence of key US eco data this week, attention may turn to the ECB which may send a dovish message at its meeting on Thursday. The 1.1460/95 resistance was extensively tested, but the test was

rejected. The jury is still out, but the topside in EUR/USD is better protected. The dollar may try to make some come-back ahead of the ECB meeting. First support for EUR/USD stands at 1.11. In a longer term perspective, **if the policy divergence between the Fed and the ECB becomes less outspoken, EUR/USD may return toward the August correction high at 1.1719. USD/JPY looks more vulnerable to a delay in the Fed rate hike cycle in case of risk-off and/or rising volatility.**

## Sterling extends cautious rebound

**For the fourth consecutive session sterling gained ground. The UK and EMU calendars were empty.** There was some loose talk about the turnaround of Nowotny on his dovish comments (from Thursday). In the weekend, he apparently backtracked. We wouldn't make too much from it. He probably got a nod from Frankfurt that no policy change was scheduled on Thursday in sunny Malta. **We think that the sterling gains, exclusively eked out in the European morning trading, were technical in nature. The failed test of the 0.75 level was the sign to take profit and that may still be ongoing. Technically, EUR/GBP fell through the 0.7333 support, potentially painting a sterling bullish double top on the charts. EUR/GBP finally closed at 0.7324, down from 0.7351 on Friday. Cable did well too and moved to 1.5497 for an intraday high, but traders hadn't the stamina to go for a real test of the 1.55 handle. Cable eased slightly in the US session to close at 1.5465, up from 1.5438 on Friday.**

**Today**, there are no important eco releases in the UK but BOE governors Carney and Bailey speak at a Treasury Committee while McCafferty speaks in London. McCafferty's hawkish view is well known. For Carney, it is not sure that he will give any hints on current monetary policy. So sterling trading will again be driven by **technical considerations and by the price swings in the dollar and the euro**. The downside in sterling (EUR/GBP 0.7483/0.75 strong resistance) looks better protected. At the same time, a dovish ECB might help to extend the recent decline in EUR/GBP short-term. **From a technical point of view**, EUR/GBP tries to sustain south of the 0.7330 short-term support. A drop below 0.7333 paints a sterling bullish double top on the charts, which may see EUR/GBP extend towards 0.72 (tough resistance for sterling). Some further sterling gains against the euro might be on the cards short-term, but we expect the pair to maintain the established ranges.

*Sterling ekes out some more gains against euro and dollar*

*Technical: EUR/GBP drops below 0.7333 painting ST double top on the charts*



EUR/GBP 0.7333 support under test for a bullish sterling double top?



Cable stays off the recent lows nearing the 1.55 area

# Calendar

Tuesday, 20 October		Consensus	Previous
<b>US</b>			
14:30	<a href="#">Housing Starts (Sep)</a>	1142k	1126k
14:30	Housing Starts MoM (Sep)	1.4%	-3.0%
14:30	<a href="#">Building Permits (Sep)</a>	1170k	1170k
14:30	Building Permits MoM (Sep)	0.0%	3.5%
<b>Japan</b>			
07:30	Nationwide Dept Sales YoY (Sep)	A: 1.8%	2.7%
07:30	Tokyo Dept Store Sales YoY (Sep)	A: 4.9%	6.1%
08:00	Machine Tool Orders YoY (Sep F)	A: -19.1%	-19.1%
09:00	Convenience Store Sales YoY (Sep)	--	1.7%
<b>EMU</b>			
10:00	ECB Current Account SA (Aug)	--	22.6b
<b>Germany</b>			
08:00	PPI MoM/YoY (Sep)	A: -0.4%/-2.1%	-0.5%/-1.7%
<b>Belgium</b>			
15:00	Consumer Confidence Index (Oct)	--	-10
<b>Events</b>			
00:30	RBA publishes Minutes of October meeting		
11:00	BOE's Bailey Speaks at Treasury Committee, London		
12:00	<a href="#">BOE's Carney Speaks at Treasury Committee, London</a>		
15:00	<a href="#">Fed's Dudley, Powell Speak at Market Conference in New York</a>		
17:00	Fed Chair Yellen Makes Brief Welcoming Remarks at Ceremony		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,02	-0,01	US	0,59	-0,01	DOW	17231 17230,54
DE	0,56	0,01	DE	-0,27	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,87	0,00	BE	-0,21	0,01	NIKKEI	18210 18210,33
UK	1,83	0,03	UK	0,53	0,02	DAX	10164,31 10164,31
JP	0,32	-0,01	JP	0,02	0,00	DJ euro-50	3272 3272,04

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,142 0
3y	0,094	0,939	1,106	Euribor-1	-0,12	0,00	Libor-1 USD	0,51 0,51
5y	0,324	1,348	1,413	Euribor-3	-0,05	0,00	Libor-3 USD	0,58 0,58
10y	0,938	1,965	1,860	Euribor-6	0,02	0,00	Libor-6 USD	0,75 0,75

Currencies			-1d	Currencies			-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1332	-0,0044		EUR/JPY	135,35	-0,30			199,4474	1169,51	48,78
USD/JPY	119,475	0,23		EUR/GBP	0,732	-0,0043		-1d	0,00	-3,59	-1,37
GBP/USD	1,5475	0,0028		EUR/CHF	1,0831	-0,0019					
AUD/USD	0,7267	-0,0008		EUR/SEK	9,4048	0,04					
USD/CAD	1,3036	0,0113		EUR/NOK	9,2033	0,00					

# Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	<b>Brussels</b>	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Joke Mertens	+32 2 417 30 59	Institutional Desk	+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94	France	+32 2 417 32 65
<b>Dublin Research</b>		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)			
Jan Cermak	+420 2 6135 3578	<b>Prague</b>	+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8809	<b>Bratislava</b>	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	<b>Budapest</b>	+36 1 328 99 85

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