



## Sunrise

Thursday, 26 November 2015

### Rates: Bunds jump on rumours about aggressive ECB easing measures

Yesterday, Bunds had a strong run, while US Treasuries traded sideways. The German 2 and 5-yr yields set new lows and the yields are now negative up until the 7-yr tenor. Today, Thanksgiving holiday in the US and a nearly empty EMU calendar point to sideways dull trading in the Bund market. The Bund is near the high, but that's difficult to break without trigger.

### Currencies: USD and sterling reverse risk-off correction

Yesterday, the dollar and sterling reversed Tuesday's risk-off losses. The trade-weighted dollar (DXY) even traded briefly north of the 100 mark. At the same time, the euro was hammered by renewed market speculation on aggressive ECB easing next week. Today, currency trading will probably develop in thin market conditions due to Thanksgiving in the US.

### 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	↘

- Yesterday, **European equities** ended the trading session with solid gains up to 2.1%, recovering most of Tuesday's losses. **US equities** closed mixed after an uneventful trading day. Overnight, most **Asian equities** are trading in the green, with the exception of the Chinese equities.
- **China has allowed the first batch of foreign institutions into China's interbank foreign exchange market.** This registration comes **right ahead of the announcement by the IMF** on Monday that the **Yuan may join its SDR basket.**
- **The Central Bank of Brazil has left its benchmark interest rate unchanged at 14.25% as the country attempts to get grip on inflation.** They might increase even more if the US Federal Reserve raises interest rates next month.
- **The Australian capital expenditure for Q3 fell by -9.2%, a lot more than expected, as the market was foreseeing a decline of -2.9%.** Capex has declined for four straight quarters, as mining investment continue to slow.
- Commodities are taking a breather, as the **Brent Crude rose back to 46.\$/barrel,** Metal prices solidified a bit, with **Copper up 2.7%** and **Palladium and Platinum both up 0.8%**
- Today the **eco-calendar is very thin as the American markets are closed due to the thanksgiving holiday.** The only data with some market moving potential is the M3 money supply for the eurozone and the Gfk consumer confidence indicator for Germany.

# Rates

## ECB rumours push Bund higher

*Strong run of Bunds on signs ECB may be still more aggressive than expected*

*US Treasuries close little changed*

	US yield	-1d
2	0,9343	0,0000
5	1,6708	0,0098
10	2,2341	0,0035
30	2,9944	0,0032

*EMU M3 sole eco release of some importance*

*No scheduled ECB speakers*

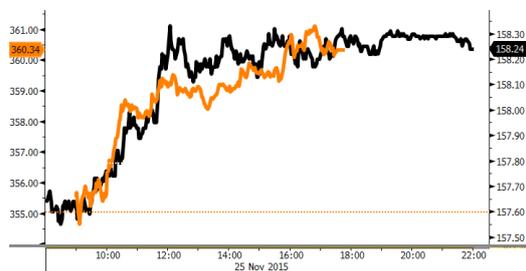
	DE yield	-1d
2	-0,4150	-0,0400
5	-0,1825	-0,0477
10	0,4739	-0,0348
30	1,3158	-0,0088

German bonds had a strong run, triggered by ECB rumours about measures under consideration for decision at the December ECB meeting. Mixed US eco data had no lasting effect. German Bunds outperformed US Treasuries. In a daily perspective, the German yield curve shifted 1.6 bps (30-yr) to 5.2 bps (5-yr) lower. New lows for the 2s and 5s, with the 10-yr yield again below 0.5%. Changes on the US curve ranged between +0.4 bps (2-yr) and -0.8 bps (30-yr). On intra-EMU bond markets, 10-yr yield spreads narrowed by 3 to 7 bps.

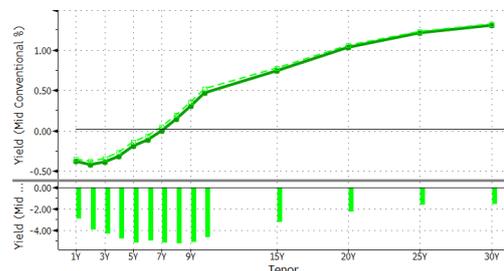
Intraday, the Bund caught a bid when rumours filtered through about potential ECB easing measures at the December 3 meeting. The Bund rally went hand in hand with the equity rally and the euro sell-off. The Bund rally topped out around noon. US Treasuries traded with an upward bias too, but the gains were small. During the US session, the US eco data were mixed. US Treasuries spiked lower, but soon returned towards opening levels in the absence of follow-through selling. The Bund continued to hover sideways, but remains within striking distance of the recent (Oct) high.

## Thin Calendar, slow trading?

Today, the eco-calendar is very thin as the American markets are closed for the Thanksgiving holiday. The only releases with some market moving potential are the M3 money supply for the eurozone and the Gfk consumer confidence indicator for Germany. The M3 money supply is expected to have remained stable at 4.9% in October. We side with the market consensus. The German Gfk consumer confidence is expected to have slightly declined from 9.4 to 9.2. We see no specific risks and side with the consensus



Bund future (orange) & Eurostoxx (orange): both rally on ECB rumours



German yield curve shifts lower (1 day) Tenors till 7-yr negative.

R2	160,62	-1d
R1	158,6	
<b>BUND</b>	<b>158,24</b>	0,5400
S1	156,98	
S2	154,81	

## US Treasury concluded financing with decent 7-yr Note

**The US Treasury concluded its end of month financing operation with a decent \$29B 7-yr Note auction.** The bid cover was a little above average (2.51 vs. 2.46) and the stop-out rate was well through the 11:30 am bid side. Buy-side takedown figures were also strong with good direct and indirect bids.

## Today: Thanksgiving-thinned, technical trading

**Overnight**, most Asian stock markets trade positive with China underperforming. US Markets are closed today for Thanksgiving holiday. We expect a neutral opening of the Bund.

**Today**, the eco calendar contains only EMU M3 and lending data. While interesting, these normally don't impact trading. In the absence of US investors and amid this thin calendar, we expect today's trading to be technically in nature. End of month extension buying is a positive, but we don't expect the Bund to break above the October high (158.60) without strong driver. A lot of ECB easing expectations are also discounted by now.

**Technically, the fundamentals (ECB) and technicals (uptrend channel) remain bullish for the Bund. We stay cautious though and still consider some lightening of long positions especially if we would test the highs (Bund). We see, as before, little value when German 10-yr yield is below 0.50%.** The T-Note future tested key 126-16 support, but no sustained break occurred. The bears probably won't go immediately for another test. Therefore, we hold our sell-on-upticks for US Treasuries or even lightening long positions straight away.



German Bund remains in upward trend channel. Ready to test October high, but no break expected.



US Note future: indecisiveness around 126-16 support.

# Currencies

*Euro reversed risk-off rebound on ECB easing speculation*

R2	1,083	-1d
R1	1,0763	
<b>EUR/USD</b>	<b>1,0621</b>	<b>-0,0048</b>
S1	1,0566	
S2	1,0521	

*Risk sentiment remains constructive*

*Dollar shows no clear trend*

*The eco calendar contains only second tier eco data today*

*Trading will develop in thin market conditions due to Thanksgiving*

*Topside of the euro looks well protected going into next week's ECB policy decision*

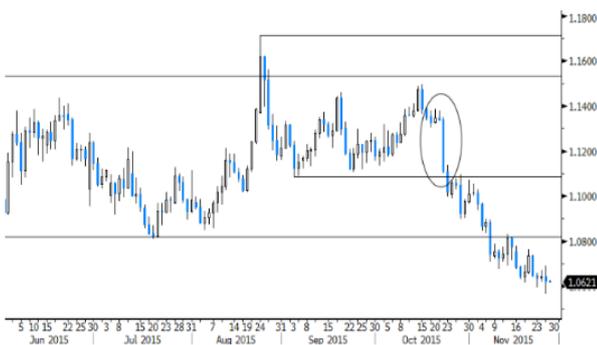
## Euro rebound easily reversed

Yesterday, the dollar regained most of Tuesday's losses as tensions between Russia and Turkey were expected not to escalate. Rumours on (aggressive) measures at next week's ECB meeting pushed European yields lower, supported European equities and weighed on the euro. The euro decline/dollar rebound slowed later in the session as US equities drifted basically sideways. EUR/USD closed the session at 1.0624 from 1.0643. USD/JPY ended the session at 122.74 from 122.53. The trade-weighted dollar traded briefly north of 100, but the cycle top at 100.39 just wasn't reached.

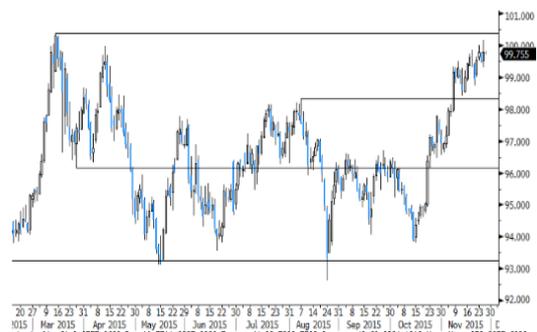
**Overnight**, Asian equities trade mostly with modest gains. China underperforms. Some industrial commodities including oil show tentative signs that the recent decline is slowing. This is supporting equities. Even so, despite a better commodity sentiment, the Aussie dollar slightly underperforms this morning. The positive impact from commodities on the Aussie dollar is counterbalanced by a sharp decline in private capital expenditure in Q3 (-9.2%). AUD/USD is slightly off yesterday's correction top and trades near 0.7235. EUR/USD is little changed from yesterday's closing level and trades near 1.0620. USD/JPY loses slightly ground in the 122.55 area.

**Today**, the calendar is thin. The **EMU money supply and lending data and, to a lesser extent, the Gfk consumer confidence have (modest) market moving potential**. The EMU money supply/lending data are in theory interesting input for the ECB policy meeting. However, the currency market seldom reacts. A poor figure might be slightly negative for the euro as it could fuel market speculation on aggressive ECB measures next week. US markets are closed in observance of Thanksgiving. So trading on global markets will develop in thin conditions.

Yesterday, euro weakness due to speculation on aggressive ECB easing next week, was the main drive for currency trading. At the same time, the dollar was better bid as markets assumed no escalation in the Russia/Turkey tensions. Those factors should be largely worked out. So, some consolidation in the major USD cross rates might be on the cards. Yesterday's price action suggests that the topside in the euro is well protected going into the next week's ECB policy decision. Euro weakness prevails. The dollar is apparently in more neutral territory as markets contemplate what a gradual rate hike cycle might mean, once the Fed lift-off occurred.



EUR/USD: returns to the 1.06 area.



USD (trade-weighted): almost reaching the cycle top

**From a technical point of view**, EUR/USD dropped below the 1.0809 support and reached the targets of the short-term multiple top formation in the low 1.0715 area. With policy divergence between the Fed and the ECB still in place, we don't row against the EUR/USD downtrend, but the pace of the USD rally may slow. The post ECB QE lows in EUR/USD (1.0521/1.0458 area) are obvious targets on the charts. We maintain a EUR/USD sell-on upticks strategy for a retest of the cycle lows. For USD/JPY, the cycle tops in the 125.28/86 area came on the radar, but a test looks difficult short-term.

R2	0,725	-1d
R1	0,7197	
<b>EUR/GBP</b>	<b>0,7021</b>	<b>-0,0039</b>
S1	0,6982	
S2	0,6936	

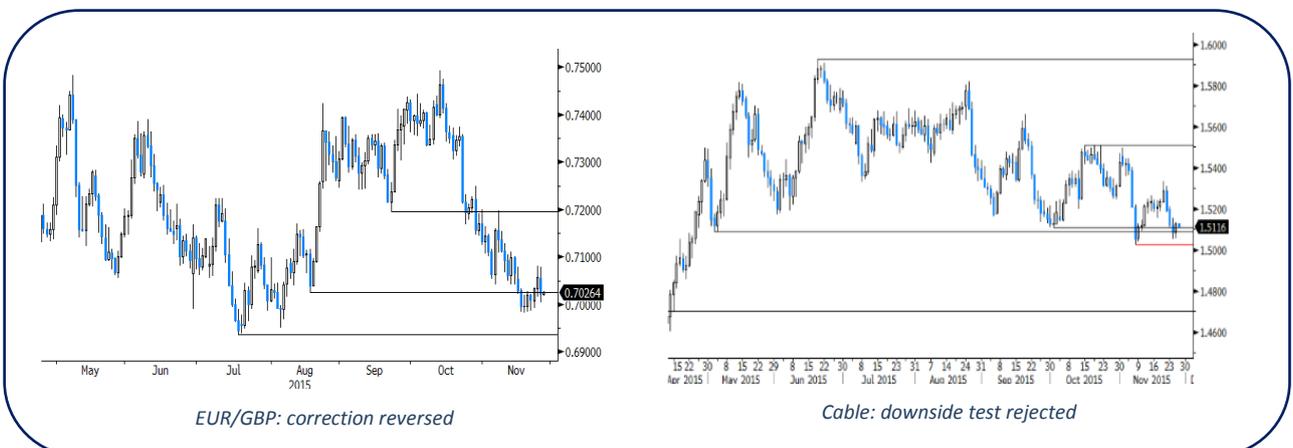
### Sterling rebounds after Tuesday's setback

**On Wednesday, sterling reversed Tuesday's losses against the euro.**

Speculation on aggressive monetary easing at next week's ECB meeting hammered European bond yields and weighed on the single currency. At the same time, the dollar was in better shape. Cable retested Tuesday's low in the 1.5060 area, but the test was rejected. The pair even reversed the early losses and closed the day in positive territory. A constructive assessment on the UK economy in the mid-year Government bud-year review maybe was a slightly positive for sterling. Cable ended the session at 1.5129 from 1.5084 on Tuesday. EUR/GBP reversed Tuesdays gains the pair ended the day at 0.7022 (from 0.7056).

**Today**, there are no important data on the calendar in the UK. With US markets closed for the Thanksgiving Holiday, trading in the major sterling cross rates might also develop in thin market conditions. Yesterday's price action suggests that short-term sentiment on sterling isn't that bad. Cable also showed some tentative signs of the downside being better protected. For EUR/GBP, we assume that the correction won't go very far with the ECB meeting looming in the horizon.

**Looking at the broader picture**, the soft ECB stance pushed EUR/GBP lower in the longstanding sideways range. The pair cleared the 0.7196 support after the October FOMC meeting. A retest occurred after a soft BoE inflation report, but the test was rejected. We maintain a sell-on-upticks approach for EUR/GBP as euro weakness prevails. Next key support is this year's low at 0.6936. The correction low at 0.6982 has become an interim support.



EUR/GBP: correction reversed

Cable: downside test rejected

# Calendar

Thursday, 26 November		Consensus	Previous
<b>EMU</b>			
10:00	M3 Money Supply YoY (Oct)	4.9%	4.9%
<b>Germany</b>			
13:00	GfK Consumer Confidence (Dec)	9.2	9.4
<b>France</b>			
18:00	Total Jobseekers (Oct)	--	3547.8k
18:00	Jobseekers Net Change (Oct)	--	-23.8
<b>Spain</b>			
09:00	Total Mortgage Lending YoY (Sep)	--	22.2%
09:00	House Mortgage Approvals YoY (Sep)	--	25.8%
09:00	GDP QoQ/YoY (3Q F)	0.8%/3.4%	0.8%/3.4%
<b>Sweden</b>			
09:30	Trade Balance (Oct)	--	3.3b
09:30	Household Lending YoY (Oct)	--	7.3%
<b>Australia</b>			
01:30	Private Capital Expenditure (Q3)	A: -9.2%	-4.4%

**Events**

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,23	0,00	US	0,93	0,00	DOW	17813 17813,39
DE	0,47	-0,03	DE	-0,42	-0,04	NASDAQ	for Exch - NQI #VALUE!
BE	0,79	-0,03	BE	-0,32	-0,03	NIKKEI	19944 19944,41
UK	1,89	0,03	UK	0,62	0,02	DAX	11169,54 11169,54
JP	0,30	-0,01	JP	0,00	0,00	DJ euro-50	3462 3462,06

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,134 0,005
3y	-0,072	1,230	1,143	Euribor-1	-0,16	0,00	Libor-1 USD	0,51 0,51
5y	0,160	1,578	1,434	Euribor-3	-0,10	-0,01	Libor-3 USD	0,57 0,57
10y	0,823	2,076	1,855	Euribor-6	-0,03	0,00	Libor-6 USD	0,73 0,73

Currencies		-1d	Currencies		-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,0621	-0,0048	EUR/JPY	130,19	-0,27		185,2654	1073,2	46,09
USD/JPY	122,59	0,30	EUR/GBP	0,7021	-0,0039	-1d	1,83	-5,44	-0,25
GBP/USD	1,5122	0,0017	EUR/CHF	1,0857	0,0024				
AUD/USD	0,7230	-0,0041	EUR/SEK	9,2694	0,01				
USD/CAD	1,3297	0,0019	EUR/NOK	9,1885	-0,01				

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