



Sunrise

Monday, 01 February 2016

Rates: BOJ policy easing pushes bonds and equities higher

Everybody happy last Friday as bonds and equities rallied. Central banks came to the rescue, as risky assets were wobbly. Overnight however, sentiment is sobering. Today, markets will look closely at the business sentiment. If strong, overbought core bonds may see some selling and position a bit more neutral going towards the payrolls.

Currencies: USD outperforms after BOJ easing

On Friday, the dollar was a 'by default' winner after the BOJ cut its policy rate into negative territory. Today, the focus will be on the manufacturing confidence data. The USD might maintain its post-BOJ gains against the euro and the yen. Sterling traders will look out how the EU/UK Brexit negotiations will evolve.

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	↗

- **US equities rallied on Friday**, supported by more BOJ stimulus and a further pick-up in the oil price. Major indices gained 2.5% despite poor Q4 GDP data. This morning, **Asian shares trade mixed**. Chinese stocks remain under pressure, while Japanese ones continued to profit from Friday's BOJ stimulus.
- **UK Prime Minister Cameron and EU President Tusk failed to reach an agreement on Britain's EU renegotiation, but agreed to another 24 hours of crucial discussions**. Downing Street however said that **much progress had been made over the weekend** and EU's Tusk suggested he would circulate a draft to EU capitals on Tuesday.
- **China's official manufacturing PMI weakened at the start of the year**, falling from 49.7 to 49.4, its weakest level in three years. The private survey however picked up slightly, but remains well in contraction territory. The People's Bank of China allowed the yuan to weaken slightly this morning, ending a six-day streak of strengthening.
- Fed's **Williams** signalled on Friday that economic weakness abroad, mixed US eco data and a stronger dollar have caused him to **expect a slower pace of rate hikes this year**. Fed's **Kaplan said he needs more time to assess how global economic weakness and financial market turmoil will hurt the US economy** and suggested he will be patient about policy decisions.
- **Nigeria has asked the World Bank and African Development Bank for \$3.5 billion in emergency loans** to fill the growing gap in its budget, which deepened due to a strong increase in public spending in an attempt to stimulate the slowing economy.
- Today, the **eco calendar** contains the euro zone (final) and UK manufacturing PMI and the **US manufacturing ISM**. ECB's Draghi Speaks before the European Parliament.

Rates

	US yield	-1d
2	0,7737	-0,0158
5	1,3247	-0,0292
10	1,9174	-0,0295
30	2,7446	-0,0254

Core bonds bonanza as BOJ join other major central banks in taking dovish turn

Key technical break lower German 10-yr yield

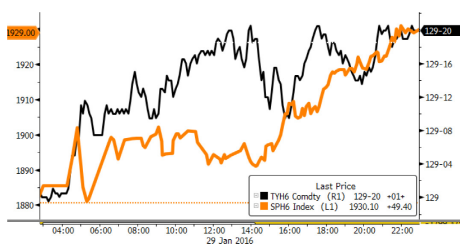
Riskier assets gain ground as do peripherals

	DE yield	-1d
2	-0,4800	-0,0360
5	-0,3054	-0,0336
10	0,3340	-0,0690
30	1,0521	-0,0744

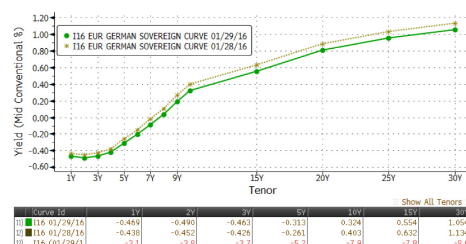
Key technical break German 10-yr yield

Global core bonds eked out additional gains on the back of more global monetary policy easing (BoJ). Bonds ignored the risk-on sentiment that pushed equities and to lesser extent oil (and commodities) higher. The Bund extended gains throughout European dealings despite overbought conditions and even added some extra gains during early US dealings. The German 10-yr yield dropped further below the 0.42% support zone. **This technical break is highly relevant and suggests a complete retracement towards 0.05% (all-time low).** Headline EMU inflation increased as expected to 0.4% Y/Y, but core inflation was a tad above expectations at 1.0% Y/Y. **US GDP** Q4 GDP was close to consensus at 0.7% Q/Qa, as was the ECI (Employment Cost Index), while Michigan consumer sentiment was a bit weaker and the Chicago PMI a lot strong than expected. It didn't affect bonds much though. **In a daily perspective**, the German yield curve bull flattened with yields 3.8 bps (2-yr) to 8 bps (30-yr) lower. Both the 2-yr and 5-yr yield reached new all-time lows (respectively -0.49% and -0.31%). Changes on the US yield curve varied between -4.3 bps (2-yr) and -7.1 bps (5-yr). **On intra-EMU bond markets**, 10-yr yield spread changes versus Germany narrowed up to 4 bps with Greece underperforming (+11 bps).

The BoJ was the latest central bank to make a dovish turn. Earlier, the BoE postponed its lift-off "sine die", the ECB pre-announced a March easing package and the Fed sounded doubtful on the outlook/rate path. The new monetary policy shift supports core bonds. Riskier assets might keep up (eg Friday) or gain further ground as long as the credibility of the central banks holds. We think that with each new measure the impact may diminish, especially as they are unable to reach their objective of higher inflation. **The BOJ move clearly strengthened the case for March ECB easing, as it strengthened the euro (4% on trade weighted basis since early December).** However, if the market start seeing the policy moves as "currency war", it may lose confidence. We will closely listen to what central bankers will say.



US Note future (black) and S&P future (orange): US Treasuries and US equities higher as BOJ is the last major central bank to turn more dovish



German yield curve bull flattens with tenor till 7 year already negative and 10-year yield barely 0.32%

Focus on manufacturing business confidence

Downside risk EMU manuf. PMI

Upside risk US ISM

The preliminary January **euro zone manufacturing PMI** showed a decline from 53.2 to 52.3, below the consensus of 53.0. The final reading is forecast to confirm this outcome. National data showed a slowdown in both Germany and France. The details however were not too bad. Nevertheless, we continue to see

downside risks following a weaker IFO and EC's confidence indicators. In the US, regional indicators were mixed, but the **manufacturing ISM** is expected to show a limited improvement from 48.2 to 48.5. For the US, we are a little more optimistic as orders and production picked up slightly in December and also the Philly Fed index/ Markit PMI showed some improvement.

Relatively thin bond supply

This week's supply comes from Germany, Spain and France. On Wednesday, the German Finanzagentur launches a new 5-yr Bobl (€5B 0% Apr2021). On Thursday, the French debt agency taps the on the run 10-yr OAT (1% Nov2025), the off the run 15-yr OAT (3.5% Apr2026) and the off the run 30-yr OAT (4% Oct2038) for a combined €7.5-8.5B. The Spanish Treasury taps the on the run 10-yr Obligacion (1.95% Apr2026) and off the run 30-yr Obligacion (4.2% Jan2037). The amount on offer still needs to be announced. The auctions will be supported by a €20.6B Obligacion redemption.

GE 10y yield below final support; heading to 0.05%?

Overnight, Asian equity markets can't really build on Friday's rally in the US. Japan outperforms (+2%; in the wake of Friday's BoJ easing) while China underperforms (-2%; mixed PMI's). Fed governors Kaplan and Williams commented on monetary policy. Kaplan needed time to judge the impact of recent market turmoil while Williams sees a slightly slower tightening pace. The US Note future trades stable suggesting a neutral opening for the Bund.

Today's eco calendar is interesting with final EMU PMI's and US Manufacturing ISM. Risks for the EMU are on the downside, risks for the US on the upside. Given that the former is a revision, we attach most attention to the US gauge. **In combination with overbought conditions (both Bund and US Note future), a strong number could trigger some short term profit taking on this year's impressive rally, making markets somewhat more neutrally positioned into Friday's payrolls release.** Vice-Fed Fischer's speech after European trading is a wildcard, as is ECB Draghi's one.

Overall sentiment remains positive on bond markets. The dovish turn of global central banks (ECB, BoE, BoJ and Fed) pulled yields lower. **Technically, the German 10-yr yield fell below final support (0.42%). That opens the way for a complete retracement towards the all-time low at 0.05%. The US 10-yr yield dropped below the 2% mark, heading for a test of support around 1.9%.**



German Bund: dovish central banks give Bund another boost



US Note future: testing contract high

Currencies

Dollar rebounded after BOJ rate cut

R2	1,106	-1d
R1	1,0985	
EUR/USD	1,085	-0,0059
S1	1,0711	
S2	1,0524	

Asian equities show mixed picture

Dollar is holding most post-BOJ gains

Manufacturing confidence in focus today

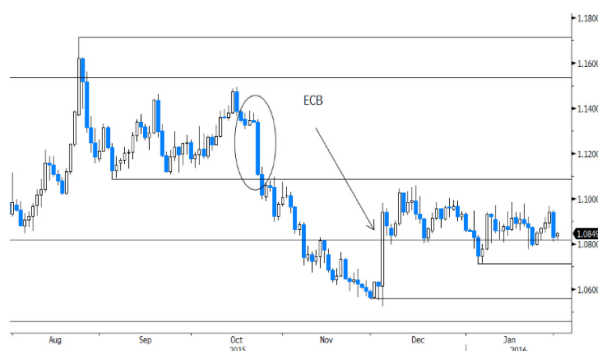
Dollar to stay well bid if sentiment on risk stays constructive

USD holding strong after BOJ rate cut

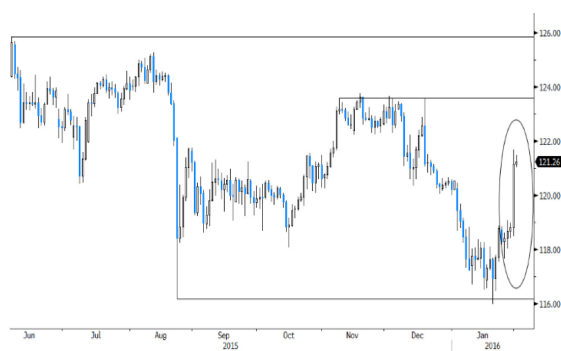
The BOJ policy easing was the key driver for currency trading on Friday. The yen lost gradually ground throughout the day and finally settled in the 121 area. EUR/USD also drifted south, especially during the US trading session. It wasn't clear whether this was dollar strength or euro weakness/profit taking on recent euro gains. US Q4 GDP growth was close to expectations. Still, the dollar gained some more ground after the publication. EUR/USD closed the session at 1.0831 (1.0940 on Thursday). Should we call it 'by default' USD buying as the BOJ and the ECB keep the door open for more negative interest rates?

Asian equities trade mixed **this morning**; Japanese equities continue the post-BOJ rally. The China manufacturing PMI's show a mixed picture. The official PMI's declined more than expected. The Caixin manufacturing measure was marginally stronger than expected. Chinese equities show losses of about 2%. The PBOC fixed the yuan slightly weaker against a dollar which trades broadly strong. The off-shore CNH trades slightly weaker at USD/CNH 6.6066. The moves in USD/JPY and EUR/USD are limited. USD/JPY trades again slightly strong in the 121.35 area. At the same time, the dollar is losing some ground against the euro near 1.0850.

Today, the focus will be on the manufacturing PMI's/ISM. The first estimate of the **euro zone manufacturing PMI** for January showed a decline from 53.2 to 52.3. We continue to see **downside risks** following a weaker IFO and EU commission's confidence indicators. In the US, regional indicators were mixed, but the **manufacturing ISM** is expected to show a limited improvement from 48.2 to 48.5. **For the US, we are a little more optimistic**. Of late, a big deviation from consensus was needed for EMU or US data to move the dollar in a sustained way. It's far from sure that today's data will be able to give this guidance. **The post-BOJ momentum was USD positive**. We don't see why this should really change today. So, we expect the dollar to stay relatively strong against the yen and the euro. Oil and equities remain a wildcard. If global sentiment remains constructive, EUR/USD might go for a retest of the 1.08 area. However a break proved very difficult of late.



EUR/USD holding its very tight sideways range



USD/JPY returns north of 120 on BOJ decision

From a technical point of view, EUR/USD several times tried to break below the 1.08 barrier, but a sustained down-move didn't occur, leaving the pair in a very tight sideways consolidation pattern. Next support is at 1.0711/1.0650 (correction low: 76% retracement off 1.0524/1.1060) and at 1.0524. On the topside, 1.0985/1.1004 (reaction top) is a first reference. This level was left intact even as sentiment was outright risk-off before the ECB meeting. Next resistance comes in at 1.1060/1.1124 (15 Dec top: 62% retracement). We expect this resistance to be difficult to break. We look to sell EUR/USD on upticks for return action lower in the range. **The picture for USD/JPY improved as the pair rebounded above 120 after Friday's BOJ policy decision. Even so, we are reluctant to position for further sustained USD/JPY gains.**

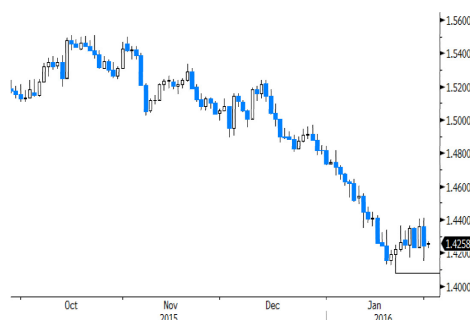
Sterling rebound runs into resistance soon

R2	0,7755	-1d
R1	0,7715	
EUR/GBP	0,7608	0,0030
S1	0,7525	
S2	0,7313	

Sterling had a good run on Thursday, supported by a higher oil price and a good UK Q4 GDP report. However, these factors disappeared on Friday and this left the UK currency again vulnerable. Cable slipped from the 1.44 level early in the session to an intraday low of 1.4150. The pair closed the session at 1.4244. This wasn't only GBP weakness, but also some post-BOJ USD strength. However, sterling also struggled to maintain Thursday's gains against the euro. EUR/GBP initially rebounded back above the 0.76 big figure, but closed the session at 0.7608, little changed from the 0.7618 close on Thursday. **Still, Friday's price action was a bit disappointing after a constructive move on Thursday.**



EUR/GBP: holding in the 0.76 area



GB/USD: holding near the recent lows

Today, the UK Money supply and lending data and the UK January manufacturing PMI will be published. The manufacturing PMI is expected to decline further from 51.9 to 51.6. Lending data are also expected a bit softer. Of late, global factors including oil were more important for sterling trading rather than specific UK eco data. Even so, we see downside risks for sterling if the PMI disappoints. This week, there will be a lot of headlines on the EU/UK Brexit talks. Latest news suggests that the talks are developing in a constructive way, but no deal has been reached yet. We think it's too early to become sterling positive because of good news on the Brexit issue. The internal political debate in the UK will persist.

In a longer term perspective, uncertainty on Brexit and global negative risk sentiment remain important drivers for sterling weakness. As long as these issues aren't solved, a sustained sterling rebound is unlikely. **The medium term technical picture of sterling against the euro remains negative as EUR/GBP broke above the 0.7493 Oct top. Next resistance stands at 0.7875.** A return below 0.74 would be a first indication that sterling enters calmer waters.

Calendar

Monday, 1 February		Consensus	Previous
US			
14:30	Personal Income (Dec)	0.2%	0.3%
14:30	Personal Spending (Dec)	0.1%	0.3%
14:30	Real Personal Spending (Dec)	0.2%	0.3%
14:30	PCE Deflator MoM/YoY (Dec)	0.0%/0.6%	0.0%/0.4%
14:30	PCE Core MoM/YoY (Dec)	0.1%/1.4%	0.1%/1.3%
15:45	Markit US Manufacturing PMI (Jan F)	52.7	52.7
16:00	ISM Manufacturing (Jan)	48.5	48.2
16:00	ISM Prices Paid (Jan)	35.0	33.5
16:00	ISM New Orders (Jan)	--	49.2
16:00	Construction Spending MoM (Dec)	0.6%	-0.4%
Japan			
03:00	Nikkei Japan PMI Mfg (Jan F)	A: 52.3	52.4
06:00	Vehicle Sales YoY (Jan)	A: 0.2%	3.1%
China			
02:00	Manufacturing PMI (Jan)	A: 49.4	49.7
02:00	Non-manufacturing PMI (Jan)	A: 53.5	54.4
02:45	Caixin China PMI Mfg (Jan)	A: 48.4	48.2
UK			
10:30	Net Consumer Credit (Dec)	1.3b	1.5b
10:30	Net Lending Sec. on Dwellings (Dec)	3.7b	3.9b
10:30	Mortgage Approvals (Dec)	69.6k	70.4k
10:30	Money Supply M4 MoM (Dec)	--	0.4%
10:30	M4 Money Supply YoY (Dec)	--	0.5%
10:30	M4 Ex IOFCs 3M Annualised (Dec)	--	5.9%
10:30	Markit UK PMI Manufacturing SA (Jan)	51.6	51.9
EMU			
10:00	Markit Eurozone Manufacturing PMI (Jan F)	52.3	52.3
Germany			
09:55	Markit/BME Germany Manufacturing PMI (Jan F)	52.1	52.1
France			
09:50	Markit France Manufacturing PMI (Jan F)	50.0	50.0
Norway			
09:00	Manufacturing PMI (Jan)	46.0	46.8
Spain			
09:15	Markit Spain Manufacturing PMI (Jan)	52.5	53.0
Sweden			
08:30	Swedbank/Silf PMI Manufacturing (Jan)	56.0	56.0
Events			
10:15	EMU - ECB Board Members, Hungary central bank governor speak		
17:00	EMU - Draghi Speaks in EU Parliament Debate on ECB Annual Report		
19:00	US - Fed's Fischer Speaks on Economy and Policy in New York		
22:15	EMU – ECB's Coeure, Nowotny, Smets speak at conference		
	Quarterly earnings publication of Alphabet Inc (Aft-market), Ryanair Holdings (07:05).		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,92	-0,03	US	0,77	-0,02	DOW	16466 16466,30
DE	0,33	-0,07	DE	-0,48	-0,04	NASDAQ	for Exch - NQI #VALUE!
BE	0,61	-0,06	BE	-0,40	-0,02	NIKKEI	17865 17865,23
UK	1,57	-0,12	UK	0,33	-0,08	DAX	9798,11 9798,11
JP	0,07	-0,04	JP	-0,14	-0,07	DJ euro-50	3045 3045,09

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,228 0,011
3y	-0,125	0,983	0,908	Euribor-1	-0,23	0,00	Libor-1 USD	0,51 0,51
5y	0,073	1,270	1,152	Euribor-3	-0,16	0,00	Libor-3 USD	0,59 0,59
10y	0,671	1,774	1,592	Euribor-6	-0,08	0,00	Libor-6 USD	0,73 0,73

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,085	-0,0059	EUR/JPY	131,58	0,13		165,2183	1120,59	35,23
USD/JPY	121,27	0,74	EUR/GBP	0,7608	0,0030	-1d	1,04	5,89	0,55
GBP/USD	1,4257	-0,0132	EUR/CHF	1,1086	-0,0001				
AUD/USD	0,7072	-0,0048	EUR/SEK	9,2965	0,01				
USD/CAD	1,4013	0,0012	EUR/NOK	9,4148	0,02				

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