



## Sunrise

**Tuesday, 10 November 2015**

### Rates: Rumours about big ECB deposit rate cut boost short-term bonds

An article based on sources suggested that the ECB may take far-reaching easing measures when it meets in December. The shorter end rallied, pushing forward eonias below the current deposit rate (-0.20%). Risk-off sentiment may help consolidation of Bonds in today's trading session.

### Dollar rally slows, but no correction yet

Yesterday, the dollar held within reach of the recent highs against the euro and the yen. An intraday rebound of EUR/USD was blocked by speculation on an aggressive ECB deposit rate cut. Today, the eco calendar remains thin. Sentiment on risk will probably be the key driver for USD trading.

### Calendar

## Headlines

- **European equities** closed yesterday's sessions with a loss after sliding down from the start. **US equities fell also prey to profit taking**. Overnight, **Asian equities trade mostly in negative territory**. Chinese equities show a mixed picture despite soft inflation data.
- **Chinese consumer inflation continues to slow down for the third month in a row**. The October CPI decelerated to 1.3% Y/Y following a CPI of 1.6% in September. Below expectations, as consensus forecasted a CPI of 1.5% Y/Y
- **The International Energy Agency said the oil market will remain oversupplied until the end of the decade**. The IEA does not expect crude oil to reach \$80/barrel until 2020.
- **Federal Reserve governor Rosengren, a known dove, was reasonably confident on inflation returning to 2%**, saying that if there is gradual improvement of the US economy, **it will be appropriate to gradually increase interest rates**.
- **The euro zone won't release new money for Greece, as well as money for bank recapitalisation until Athens has implemented the agreed reforms, according to the euro-group finance ministers**
- Today the **eco-calendar remains rather thin** with only the **NFIB Small Business Optimism in the US**. Also interesting to watch is **ECB's Nouy and Coeure speaking today**.
- 
-

# Rates

ECB "sources" suggests Draghi is preparing "big" decisions

short end German curve rallies, longer end lags

Fed Dec lift-off now very likely

	US yield	-1d
2	0,8701	-0,0240
5	1,7227	-0,0196
10	2,3364	0,0074
30	3,1044	0,0191

	DE yield	-1d
2	-0,3335	-0,0473
5	-0,0586	-0,0667
10	0,6630	-0,0288
30	1,5665	0,0314

Political troubles in Portugal and Spain hit bonds of these countries

Will ECB be influenced by Fed lift-off?

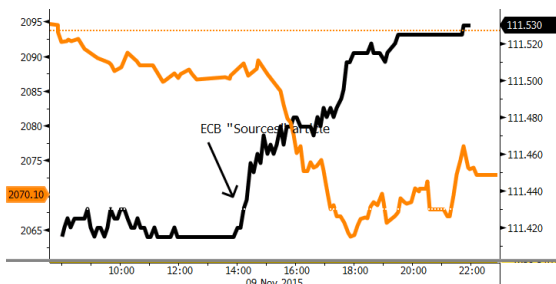
What if growth turns out stronger?

## Short end German curve rallies on ECB rumours

Global core bonds showed a divergent direction during a news poor, low volume trading session. Regarding the Bund, in a slow motion move, the Bund initially dipped lower, but it didn't go far. Around noon, the tide turned and the Bund climbed higher, helped by a news article based on ECB "sources". It suggested that consensus was growing inside the ECB governing council to cut the deposit rate with more than 10 bps. Some sources even called for a big cut (50-70 bps). The ECB also prepares changes to the QE programme beyond a simple extension, according to sources, who also sew doubt about the ability to extend the scope to corporate bonds or equities. This suggests that the size might be raised. **US Treasuries moved sideways, but with a negative bias as the strong payrolls and the consequences for Fed policy still echoed through the markets. However, when equities hit the skid, it managed to climb higher, despite a weaker 3-year T-Note auction, but was helped by dovish comments of Minneapolis Fed Rosengren, who signaled he was ready to support the lift-off.** In a daily perspective, the shorter end of the German yield curve dropped up to 5.9 bps (5-year) due to the ECB article (lower deposit rate), while the longer end (>20 yr) added 1 to 2.2 bps, with the 2-year yield down 0.4 bps. US yields were up to 2.2 bps higher (curve steeper)

**In the intra-EMU market**, both Portugal and Spain underperform as 10-year yield spreads versus Germany widen 18 and 7 basis points respectively. Yield spreads of other countries are little changed. **In Portugal**, political uncertainty is the main culprit as the left parties want to vote down the new Passos Coelho minority government today (see yesterday's sunset). **In Spain** it was the resolution of the Catalanian parliament that approved to take steps to establish an independent republic (see sunset yesterday), vowing it would begin ignoring Spanish institutions and setting up a potential standoff with the Madrid government.

Regarding the **market calendar today**, it remains quite unattractive. France and Italy report the September production data. Interesting, but no real market movers. The Minutes of the Riksbank are worth reading given their extreme policy stance, but it should have little impact on global markets. The major event might be the speech of ECB Coeure following the revelations in yesterday's ECB's "sources" article. However, as major issues don't seem to have been decided yet, he may keep silent on these possible decisions.



Schatz (2-yr) Note future and S&P future: ECB "article pushes Schatz sharply higher as Yields down.



US (red) & EMU (black) 1yr-1yr forward (eonia). In US, clearly upward (Fed lift-off), but in EMU sharply negative and below current deposit rate of -0.20%, suggesting ECB will cut deposit rate.

R2	156,16	-1d
R1	155,71	
<b>BUND</b>	<b>155,61</b>	<b>0,4200</b>
S1	154,85	
S2	152,75	

## Weak US 3-yr Note auction

**Today, the Dutch debt agency** kicks off this week's scheduled bond supply by tapping the on the run 3-yr DSL (0% Apr2018) for €2-3B. The bond traded stable in ASW-spread terms going into the auction. Year-to-date, the Netherlands completed around 90% of this year's funding need. We expect a plain vanilla auction. **In the US, the Treasury started its mid-month financing operation with a weak \$24B 3-yr Note auction.** The auction stopped through the 1:00 PM bid side, but the auction bid cover was the smallest since October 2009. The buy-side takedown figures were also nothing to write home about. Especially the plunge in the Dealer bid was behind minuscule bid cover. Weak demand at this auction suggests investors expect higher rates because of the likely near term start of the tightening cycle. **Today, the Treasury continues its financing operation with a \$24B 10-yr Note auction.** Currently, the WI trades at 2.32%.

## Today: Consolidation on core bond markets?

**Overnight,** Chinese inflation data disappointed. Asian equity indices lose up to 1% and the US Note future is marginally higher. The Eurogroup delayed signing off on a €2B aid tranche to Greece by at least a week.

**Today's calendar contains US NFIB Small Business Optimism and several ECB speakers.** Risks for NFIB are on the upside of expectations, which is a small negative for US Treasuries. If ECB members confirm yesterday's deposit rate cut rumours, it would further weigh on German Bunds. We don't expect them to add fuel to the fire though. That leaves **risk sentiment on equity markets as today's main driver for bond markets.** Sentiment in Asia is negative. Spill-over to Europe supports a consolidation trade after last week's heavy losses. Tomorrow's US holiday is a minor positive as well. In Portugal, PM Passos Coelho faces a confidence vote which he'll likely lose.

Post payrolls, the **technical pictures for the US T-Note and the Bund deteriorated.** The Dec T-note future fell through key 126-16 support (US 10-yr yield above 2.3% resistance, but confirmation needed), painting a double top on the chart with 1<sup>st</sup> target at 123-23. Short term, there could be room for consolidation, but we hold our sell-on-upticks for US Treasuries. **The Bund** broke below the bottom of the uptrend channel (156.16 today) and below the neckline of a triple top (155.71) with 1<sup>st</sup> target at 154.31. Next key support stands at 153.50. **Despite the deterioration of the technical picture of the Bund, we remain more neutral given the ECB's easing bias and the elevated chance of additional QE and/or a deposit rate cut in Dec.**



German Bund: below uptrendline and triple top. We don't expect major further losses though because of easing bias ECB



US Note future lost 126-16 support. Sell on upticks.

# Currencies

## USD little affected, as risk sentiment turns fragile

*Dollar consolidates within reach of the post-payrolls high*

*Speculation on an ECB deposit rate cut weighs on the euro*

*Chinese CPI surprises on downside.*

*Risk-off Sentiment in Asia*

*Dollar only modestly affected.*

R2	1,1072	-1d
R1	1,0809	
EUR/USD	1,0743	-0,0015
S1	1,0521	
S2	1,0458	

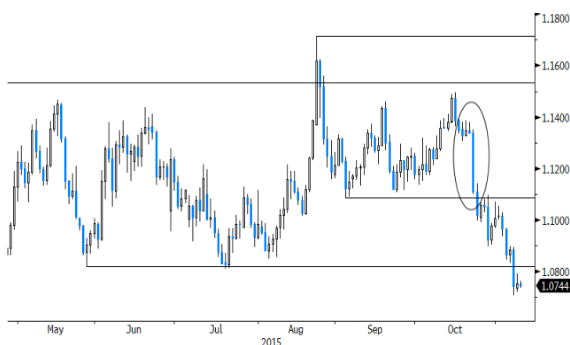
*Today, the eco calendar remains thin*

*Dollar ripe for some consolidation?*

On Monday, there were no eco data. Even so, the dollar maintained its post-payrolls' gains. The USD-positive/euro negative sentiment was reinforced by a Reuters article that the ECB was considering an aggressive deposit rate cut. Later, US equities fell prey to profit taking. This equity decline took the shine of the USD/JPY rally. The pair closed the session at 123.18, little changed from the 123.18 close on Friday, but off the intraday top of 123.60. The performance of the dollar against the euro was less affected by the equity correction. EUR/USD closed the session at 1.0752 (1.0741 on Friday).

This morning, Chinese inflation data disappointed. Headline CPI inflation was reported at 1.3% Y/Y (1.5% was expected), while PPI inflation declined 5.9 Y/Y. Most Asian equities opened the session in the red. The low Chinese inflation numbers provided some temporary relief especially for Chinese equities as investors pondered the chances for more easing. **However, this time the "bad news is good news trick" doesn't really work.** Most Asian equities show substantial losses. Commodities remain in the defensive, too. Even so, USD/JPY and EUR/USD are little changed respectively in the 1.0745 area and the 123.20 area at the moment of writing. The Aussie dollar is stabilizing in the 0.7050 area.

Today, there are again only second tier eco data on the agenda. **Speeches from ECB members are key following yesterday's rumours on an aggressive ECB deposit rate cut.** We don't expect ECB's Coeure to give much info when he speaks today, as ECB discussions seems ongoing. The fear for aggressive ECB action is putting a solid cap on the topside of the euro. **In the US the eco calendar is also of little interest.** Only the NFIB small business confidence, has some modest market moving potential. It is expected to rise slightly from 96.1 to 96.5. Even a positive won't change fortunes for the dollar. In a day-to-day perspective, sentiment on risk might turn for the worse. However, for now, the impact on the dollar and especially on EUR/USD is limited. **So, some more consolidation after the recent strong USD gains might be on the cards.** There is no trigger to really row against the USD positive tide.



EUR/USD: holding near the recent lows due to speculation on an ECB deposit rate cut



USD/JPY: rally slows

*USD has broken beyond key resistance levels. Cycle lows/highs in EUR/USD and USD/JPY at respectively 1.0458 and 125.86 come on the horizon.*

**In a broader perspective**, the dollar has strengthened recently against the euro and the yen. **Interest rate differentials at the short end widened in favour of the dollar.** EUR/USD dropped below the key 1.0809 support and also reached the targets of the multiple top formation (neckline 1.1087/1.1105) in the low 1.0715 area. With policy divergence between the Fed and the ECB (and to a lesser extent also the BoJ) still in place, we don't row against the USD uptrend. However, quite some good (interest rate) news is already be discounted. So, the pace of the USD rally may slow. The post ECB QE lows in EUR/USD (1.0521/1.0458 area) are the most obvious targets on the charts. We hold on to 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 come on the radar, but a (sustained) break won't be easy short-term.

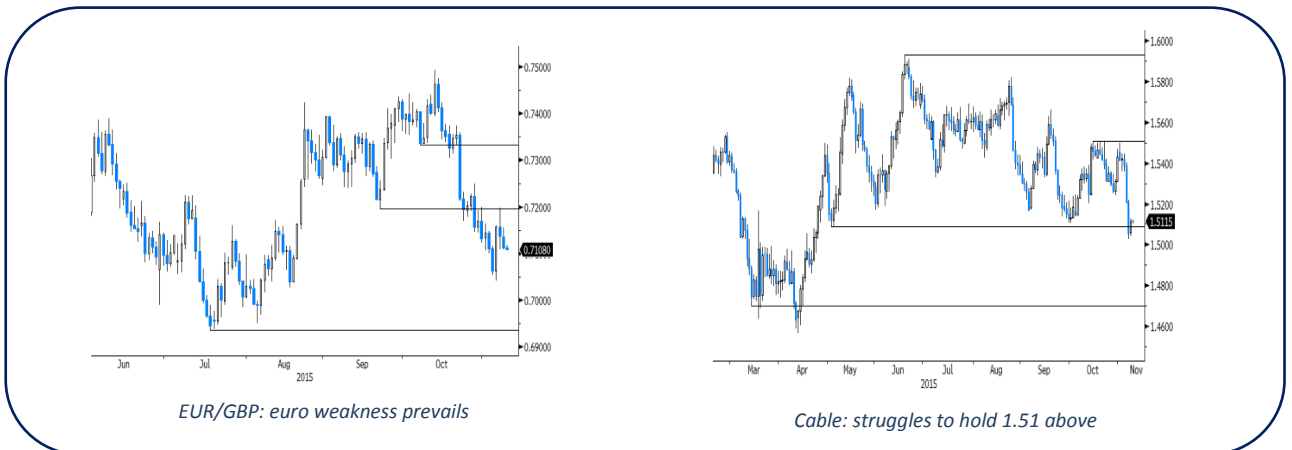
**EUR/GBP: euro weakness prevails**

On Monday, there was no big story about sterling trading. Cable traded with a slight upward bias during the European morning session. Call it a slight repositioning in the wake of Friday's post-payrolls setback. The move halted temporary during the US trading session, but resumed as the dollar lost some ground due to declining equities later in the session. Cable closed the session at 1.5115 (from 1.5053 on Friday). **EUR/GBP largely followed the intraday trading pattern of the EUR/USD headline pair.** The pair held a tight sideways range in the 0.7130/55 area during the morning session, but declined toward the post payrolls low after the Reuter article on an ECB deposit rate cut. EUR/GBP closed the session at 0.7113 (from 0.7137 on Friday).

**This morning**, the BRC store sales came out at -0.2% Y/Y (a decline from 2.6 % Y/Y, while 0.8% was expected). The figure is a disappointment, but comes on the back of a strong September figure. As usual, there was hardly any reaction of sterling. **Later today**, there are no important eco data on the agenda. The UK labour market report, expected on Wednesday, will be key for sterling trading this week. Will a strong/decent report bring a BoE rate hike again on the radar?

**Looking at the broader picture**, the soft tone at the ECB press conference pushed EUR/GBP again lower in the longstanding sideways range. The pair tested the 0.7196 support and the level was 'really' broken after the FOMC announcement. A retest occurred last week after a soft BoE inflation report, but the test was rejected. **We maintain a sell-on-upticks approach for EUR/GBP.**

R2	0,725	-1d
R1	0,7197	
<b>EUR/GBP</b>	<b>0,7109</b>	-0,0032
S1	0,7042	
S2	0,6936	



# Calendar

Tuesday, 10 November		Consensus	Previous
<b>US</b>			
12:00	NFIB Small Business Optimism (Oct)	96.4	96.1
14:30	Import Price Index MoM/YoY (Oct)	-0.1%/-9.4%	-0.1%/-10.7%
16:00	Wholesale Inventories MoM (Sep)	0.1%	0.1%
16:00	Wholesale Trade Sales MoM (Sep)	0.1%	-1.0%
<b>Japan</b>			
00:50	BoP Current Account Balance (Sep)	A: ¥1468.4b	¥1653.1b
00:50	BoP Current Account Adjusted (Sep)	A: ¥776.2b	¥1590.1b
00:50	Trade Balance BoP Basis (Sep)	A: ¥82.3b	-¥326.1b
05:30	Bankruptcies YoY (Oct)	A: -7.25%	-18.62%
06:00	Eco Watchers Survey Current (Oct)	A: 48.2	47.5
06:00	Eco Watchers Survey Outlook (Oct)	A: 49.1	49.1
<b>China</b>			
02:30	CPI YoY (Oct)	A: 1.3%	1.6%
02:30	PPI YoY (Oct)	A: -5.9%	-5.9%
<b>UK</b>			
01:01	BRC Sales Like-For-Like YoY (Oct)	A: -0.2%	2.6%
<b>France</b>			
08:45	Industrial Production MoM/YoY (Sep)	-0.4%/1.8%	1.6%/1.6%
08:45	Manufacturing Production MoM/YoY (Sep)	-0.5%/1.9%	2.2%/2.0%
<b>Italy</b>			
10:00	Industrial Production MoM (Sep)	0.6%	-0.5%
10:00	Industrial Production WDA YoY (Sep)	2.3%	1.0%
10:00	Industrial Production NSA YoY (Sep)	--	4.1%
<b>Norway</b>			
10:00	CPI MoM/YoY (Oct)	0.3%/2.3%	0.6%/2.1%
10:00	CPI Underlying MoM/YoY (Oct)	0.2%/3.1%	0.8%/3.1%
10:00	PPI including Oil MoM/YoY (Oct)	--/--	-0.2%/-10.1%
<b>Events</b>			
EMU - ECB's Constancio Participates in Ecofin Meeting in Brussels			
09:15	EMU - ECB's Nouy Speaks in Frankfurt		
09:30	Sweden - Riksbank Minutes from Monetary Policy Meeting		
10:30	Norway - Norway's FSA Publishes Financial Trends Report		
11:00	Holland - Eur 2.0-3.0bn 0% Apr 2018 DSL		
11:30	UK - 0.125% 2058 I/L Gilt auction		
12:15	EMU - ECB's Coeure Speaks in Berlin		
19:00	US - Holds 10-year note auction		



10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,34	0,01	US	0,87	-0,02	DOW	17730 17730,48
DE	0,66	-0,03	DE	-0,33	-0,05	NASDAQ	for Exch - NQI #VALUE!
BE	0,95	-0,03	BE	-0,28	-0,04	NIKKEI	19671 19671,26
UK	2,05	0,00	UK	0,70	-0,01	DAX	10815,45 10815,45
JP	0,32	-0,02	JP	0,00	-0,01	DJ euro-50	3418 3418,36

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,145 -0,007
3y	0,017	1,239	1,254	Euribor-1	-0,12	0,00	Libor-1 USD	0,51 0,51
5y	0,268	1,654	1,588	Euribor-3	-0,07	0,00	Libor-3 USD	0,58 0,58
10y	0,965	2,209	2,031	Euribor-6	0,00	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0743	-0,0015	EUR/JPY	132,44	-0,35		191,0338	1092,56	47,32
USD/JPY	123,31	-0,14	EUR/GBP	0,7109	-0,0032	-1d	0,00	0,05	-0,31
GBP/USD	1,511	0,0047	EUR/CHF	1,079	-0,0011				
AUD/USD	0,7052	0,0010	EUR/SEK	9,3402	-0,03				
USD/CAD	1,3263	-0,0029	EUR/NOK	9,2933	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)		<b>Prague</b>	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		<b>Bratislava</b>	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		<b>Budapest</b>	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

ALL OUR REPORTS ARE AVAILABLE ON [WWW.KBCCORPORATES.COM/RESEARCH](http://WWW.KBCCORPORATES.COM/RESEARCH)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

