



## Sunrise

Wednesday, 14 October 2015

### US Treasuries gain some ground on mild risk-off sentiment

The sentiment on risk drove the price action in bond markets. US Treasuries profited slightly more, but also had some catching up to do following Columbus Day holiday. Today, the sentiment on risk and the US retail sales are key for bonds. Core bonds may keep trading in the well-established ranges.

### EUR/GBP testing key resistance

Yesterday, the dollar lost slightly further ground against the euro and the yen as sentiment on risk softened. However, the losses were moderate. Today, the US retail sales are key for USD trading. In the UK, wage data will probably decide whether EUR/GBP will regained the 0.75 barrier.

### 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** have cooled down after the rally of last week, closing with some losses for the second day in a row , **US equities** have also ended their strong rally of the past week, closing yesterday's trading with a loss . Overnight, **Asian equities** are trading in the red, with Japan taking the biggest losses (Nikkei -2%).
- **The Chinese inflation fell from 2.0% Y/Y in August to 1.6% Y/Y in September.** This drop was bigger than the expected decline to 1.8% Y/Y. A slowdown in food prices exerted the most downward pressure on consumer prices.
- **The Singapore central bank eases monetary policy** as the country's growth sputters, barely dodging recession, with China being the country's biggest customer.
- Commodities traded mixed overnight with **Brent Crude dropping back below the 50\$/barrel mark** and metals going upwards: **Gold (+0.4%), Palladium (+1.4%)** and **Copper (+0.3%)**.
- Today, **eco-calendar** contains the US **retail sales**, the UK **jobless claims** and EMU **industrial production**.
- On the **corporate calendar**, **Bank of America and Wells Fargo release their Q3 2015 earnings data**, both releases are before market opening.

# Rates

*Modest risk-off sentiment supports core bonds*

*Intra-EMU yield spread narrow slightly*

	US yield	-1d
2	0,617	-0,0120
5	1,3521	-0,0212
10	2,0404	-0,0176
30	2,878	-0,0087

*Fed Tarullo joins Brainard in pleading not to hike rates in 2015*

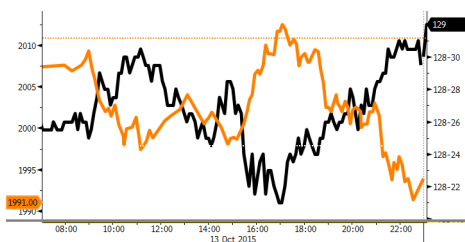
	DE yield	-1d
2	-0,2440	-0,0030
5	-0,0130	-0,0040
10	0,5870	0,0030
30	1,3550	0,0210

## Risk aversion slightly supports US Treasuries

**Global core bonds profited from safe haven flows in the European opening, but had a fairly dull session afterwards in which early gains evaporated.**

Following an encouraging US equity open, equities turned South, giving core bonds another safe haven bid. Mixed eco data (ZEW and NFIB confidence) and a hawkish Fed Bullard were bluntly ignored. Dovish comments of Tarullo on the other hand supported US Treasuries. In a daily perspective, the German yield curve range bear steepened with yields 0.5 bps (2-yr) to 2.2 bps (30-yr) higher. US yields dropped between 2 and 4 bps, the belly outperforming. On intra-EMU bond markets, 10-yr yield spreads narrowed by up 4 bps.

**Washington-based governor Tarullo brought a mini earthquake when he said on CNBC that his current expectation was that it was not appropriate to raise rates this year. Like Brainard, he suggested that the Fed should wait for tangible evidence of a pick-up in inflation before moving amid a global disinflationary environment. He expressed concerns that in a risk management approach a premature rate rise may be harder to deal with than waiting a bit longer. Both challenged the Phillips curve argument of chair Yellen. This means that now two Fed board governors oppose Yellen's strategy for a 2015 rate hike. The disagreement of two Fed board members is unusual.** Yellen said that a rate increase in 2015 would be appropriate even if there was no increase in inflation (yet) as long as the labour market improves further. This structural division in views inside the board of governors means Yellen has no firm grip on the Fed Board and by extension may have some difficulties convincing the FOMC Committee. **However, the Minutes of the discount rate meetings** showed that 8 of the 12 regional central banks asked for an increase of the 0.75% discount rate (vs. 5 in August). It might be a hawkish signal, but also more of a technical issue. During the crisis, the Fed narrowed the band between Fed Funds and discount rates. With the lending situation normalizing, they may feel it is appropriate to widen the band again, especially ahead of an eventual FF rate increase.



T-Note future (black) & S&P future (orange): Mild risk-off sentiment drives core bonds



US 2-yr yield: Still nice in sideways channel as confusion on timing and path Fed funds remains alive, also after Tarullo's comments

## Interesting calendar with US retail sales key release

*No reasons to distance from consensus regarding US retail sales*

The **US Retail Sales** are expected to show a 0.2% M/M increase in September, following a similar rise in August. The retail activity excluding auto dealers and gasoline station sales are expected at +0.3% M/M, identical to the August rise.

We see no specific reason to distance ourselves from consensus. EMU industrial production for August is expected to show a 0.5% M/M decline, coming from a slight increase of 0.6% M/M in September. There is some marginal upside risk, despite the weak German production data.

R2	160,62	-1d
R1	157,67	
<b>BUND</b>	<b>156,41</b>	<b>0,0000</b>
S1	153,5	
S2	152,75	

### Germany and Portugal tap market

Today, the German Finanzagentur holds a €3B 5-yr Bobl auction (0.25% Oct2020). Total bids at the previous 5 Bobl auctions averaged a very meagre €4.04B and we don't expect much improvement today. Given the relatively low amount on offer, the auction should still be covered though. The Portuguese debt agency sells the on the run 10-yr OT (2.875% Oct2025) and the off the run OT (4.1% Apr2037) for a combined €1-1.25B. In the run-up to the auction, both bonds cheapened in ASW-spread terms since the split general election outcome. The current political deadlock could weigh on demand, but we still expect a decent auction. On the Portuguese curve, the Apr2037 OT offers fair value, while the Oct2025 OT is rich. The proceeds will be used to pre-finance for next year as the Portuguese treasury already raised this year's funding need.

### Today: Risk sentiment & US Retail sales key for trading

Overnight, the US Note future trades stable despite dovish comments by Washington-based governor Tarullo (see above). Risk sentiment in Asia in negative with Japan underperforming. Bund opens little changed.

Today's main trading item is the US retail sales. We have no reason to distance ourselves from consensus. Given the weak payrolls and cautious FOMC comments, especially a negative surprise could trigger a market reaction (stronger core bonds). Evolutions on commodity and equity markets remain a trading theme as well. Both markets show signs of topping off. A correction lower should again be positive for core bonds.

After the dovish September FOMC meeting, we eyed a return to the contract high for the US Note future (129-10+), but we didn't anticipate a break higher. That last assumption was under severe pressure after disappointing payrolls, but ultimately both the US Note future and the Bund are back in the ranges. We hold our cautious sell-on-upticks approach for core bonds around current levels for return action to the lower bound of the established ranges, but are aware that a new slump in equity/commodity prices could interfere this scenario. A revisit of the highs is possible.



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



US Note future: cautious sell-on-upticks approach. New slump in commodities/equities risk scenario.

# Currencies

*Dollar stays in the defensive, but losses against the yen and the euro remain moderate*

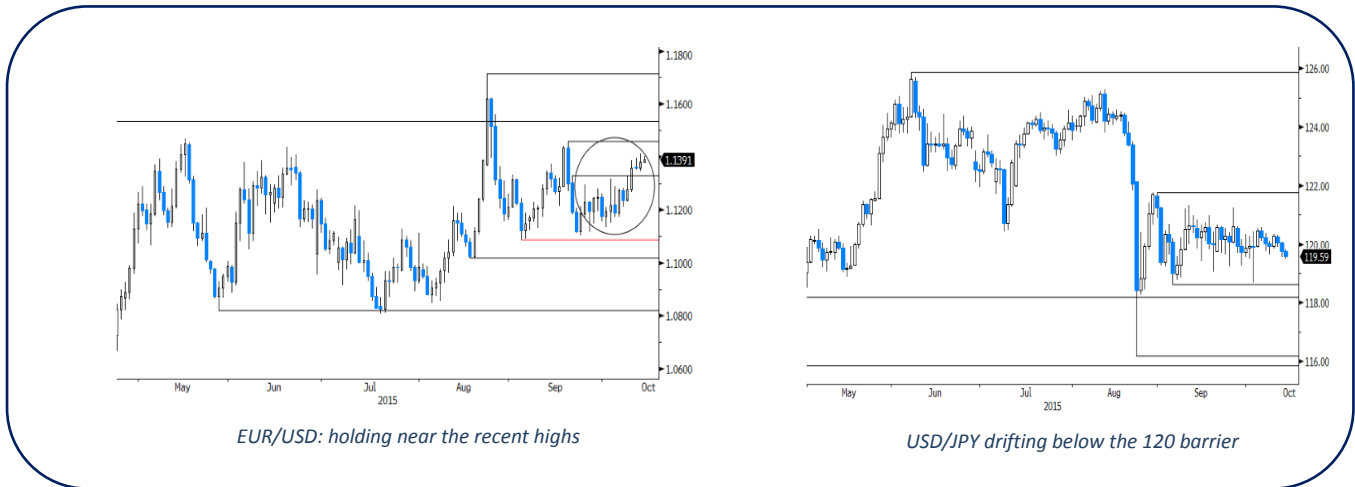
R2	1,1714	-1d
R1	1,146	
<b>EUR/USD</b>	<b>1,1394</b>	0,0020
S1	1,1087	
S2	1,1017	

*Sentiment on risk in Asia remains cautious. The dollar holds with reach of the recent lows against the euro and the yen.*

## Dollar holding near the recent lows

On Monday, risk sentiment turned negative and weighed on the dollar. USD/JPY dropped below back below the 120 pivot. EUR/USD spiked temporary north of 1.14. However closing at UR/USD 1.1379, the daily losses of the dollar against the euro are contained. Yesterday evening, Fed's Tarullo joined the soft camp within the Fed and indicated that it probably won't be appropriate for the Fed to raise rates this year. His comments had hardly any impact on the dollar.

Overnight, the Chinese September CPI was reported at 1.6% Y/Y, from 2.0% (1.8% Y/Y). PPI was unchanged at -5.9%. Low price pressures keep the hope alive for more policy stimulation. Even so, this hope is not enough to keep Asian markets in positive territory. A poor close in the US yesterday evening weighs. Most Asian indices show modest losses. China outperforms (Shanghai almost unchanged). Japan underperforms. Even so, the damage for USD/JPY is limited. The pair trades in the 119.60 area. The risk-off sentiment is also a slightly negative for the dollar against the euro. Elsewhere in the region, Singapore eased its policy as it announced to slightly reduce the pace of the appreciation of the Singapore dollar versus the currencies of its trading partners.



*The US retail sales are the key data series for USD trading today*

*In case of disappointing US data and/or a further risk-off sentiment, the EUR/USD 1.1460 level will come on the radar*

Today, the EMU industrial production will be published. The consensus expects a decline of -0.5% M/M. We see a slight upside risk. However, the figure probably won't have a lasting impact on trading. The **US retail sales have more market moving potential**. The consensus expects the headline sales to rise 0.2% M/M. Sales ex auto and gas and the control group are both expected at 0.3%. We don't have strong arguments to take a different view from the consensus. The US PPI is expected soft at -0.2% M/M. A soft figure might raise further questions on the Fed's ability to raise rates this year. After the close of the European markets, the Fed's Beige book, preparing the October FOMC meeting, will be published. After the recent poor payrolls, we look out whether regional Fed districts see a change in local activity. **Global markets continue to struggle to assess the health of the global economy and its impact on monetary policy**. In a short-term perspective, markets are focused on the impact of weaker than

expected data on Fed rate hike path. The dollar is vulnerable in the short-term even as the ECB might ease policy further if economic conditions deteriorate further. However, potential ECB action is probably some way off. So, for now the short-term context is slightly negative for the dollar. A test of the 1.1460 resistance may occur. IF the combination of poor data and risk-off persists, USD/JPY might come under some pressure, too.

**In a long term perspective, EUR/USD and USD/JPY might see more range trading. A Fed rate hike will probably be delayed, but such a scenario also raises the chances for more ECB or BOJ easing. In this context, both EUR/USD and USD/JPY might hold the recent ranges. If the policy divergence between the Fed and the ECB becomes less obvious, EUR/USD may return toward the year high (1.1719).**

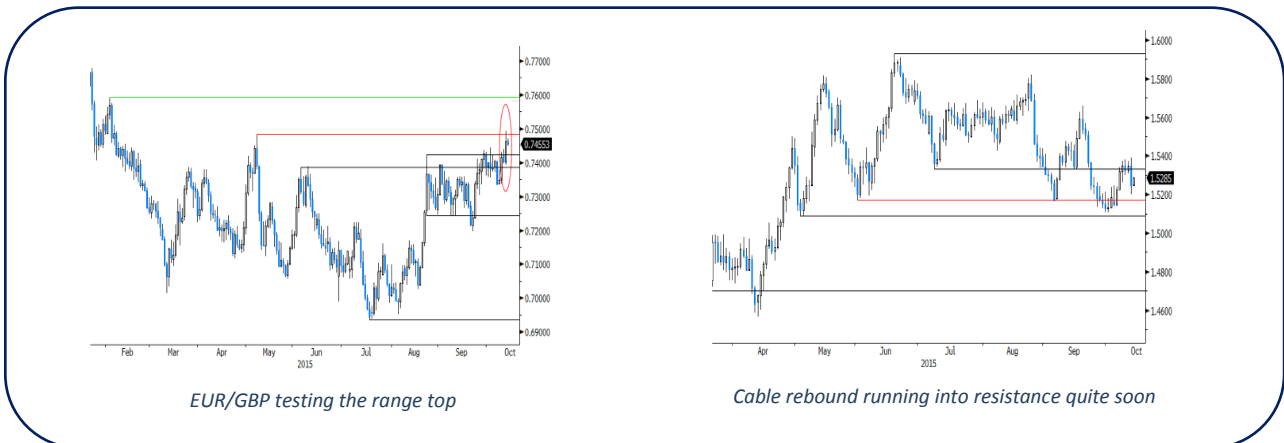
R2	0,7592	-1d
R1	0,7493	
EUR/GBP	<b>0,7457</b>	0,0035
S1	0,7333	
S2	0,7196	

### EUR/GBP testing key resistance

**On Monday,** sterling had a roll-coaster ride. The UK currency took a rather poor start in Asia but spiked higher early in Europe on the headlines of a new bid of ABInbev for SABMiller. EUR/GBP returned temporary below the 0.74 mark. Cable jumped to the 1.5385/90 area. However, the gains of sterling were again short-lived. **Mid-morning, the UK CPI data surprised on the downside.** Headline CPI declined to -0.1% Y/Y (a flat unchanged figure was expected). The soft inflation data convinced markets that the lift-off will most probably be later rather than sooner. Cable tumbled from the high 1.53 area to low 1.52 area, later in the session. The pair closed the session at 1.5248. EUR/GBP shot sharply higher and tested the key 0.7483 resistance early in US dealings. The pair ended the day at 0.7463.

**Today,** the UK labour market data might be key for the next move of sterling. The unemployment rate is expected unchanged at 5.5%. We keep a close eye at the wage data. Wage growth of 3.0%/3.1% Y/Y (incl/excl bonuses). Wave data in line with or stronger than expected might somewhat amend the price picture after yesterday's poor CPI data. We also assume that quite some bad news is already discounted in sterling. So, a sustained break beyond 0.7483/93 is no done thing yet. Of course poor data will put sterling under further pressure.

**From a technical point of view,** EUR/GBP still trades in the upper part of the sideways range capped by 0.7483. The latter was extensively tested yesterday. Sustained trading north of 0.7483 would deteriorate the short-term picture of sterling. This is not our preferred scenario. Even so, partial stop-loss protection on EUR/GBP shorts is warranted.



# Calendar

Wednesday, 14 October		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications (Oct 9)	--	25.5%
14:30	Retail Sales Advance MoM (Sep)	0.2%	0.2%
14:30	Retail Sales Ex Auto MoM (Sep)	-0.1%	0.1%
14:30	Retail Sales Ex Auto and Gas (Sep)	0.3%	0.3%
14:30	Retail Sales Control Group (Sep)	0.3%	0.4%
14:30	PPI Final Demand MoM/YoY (Sep)	-0.2%/-0.8%	0.0%/-0.8%
14:30	PPI Ex Food and Energy MoM/YoY (Sep)	0.1%/1.2%	0.3%/0.9%
16:00	Business Inventories (Aug)	0.1%	0.1%
<b>China</b>			
03:30	CPI YoY (Sep)	A: 1.6%	2.0%
03:30	PPI YoY (Sep)	A: -5.9%	-5.9%
<b>Japan</b>			
01:50	PPI MoM/YoY (Sep)	A: -0.5%/-3.9%	-0.6%/-3.6%
<b>UK</b>			
10:30	Claimant Count Rate (Sep)	2.3%	2.3%
10:30	Jobless Claims Change (Sep)	-2.2k	1.2k
10:30	Average Weekly Earnings 3M/YoY (Aug)	3.1%	2.9%
10:30	Weekly Earnings ex Bonus 3M/YoY (Aug)	3.0%	2.9%
10:30	ILO Unemployment Rate 3Mths (Aug)	5.5%	5.5%
10:30	Employment Change 3M/3M (Aug)	140k	42k
<b>EMU</b>			
11:00	Industrial Production SA MoM/WDA YoY (Aug)	-0.5%/1.8%	0.6%/1.9%
<b>France</b>			
08:45	CPI EU Harmonized MoM/YoY (Sep)	-0.4%/0.1%	0.4%/0.1%
<b>Italy</b>			
10:00	CPI EU Harmonized YoY (Sep F)	0.2%	0.2%
<b>Spain</b>			
09:00	CPI EU Harmonised MoM/YoY (Sep F)	0.4%/-1.2%	0.4%/-1.2%
<b>Events</b>			
03:00	EMU - ECB's Mersch Speaks in Singapore		
11:03	Sweden - Sek 4bn 2.5% May 2025 bonds		
11:30	Germany - Eur 3bn 0.25% Oct 2020 Bobl		
11:30	Portugal - Holds bond auction for bonds expiring in 2025 and 2037		
12:15	Norway - Holds bond auction		
13:00	US - Bank Of America, Q3 2015 Earnings release (Before market)		
14:00	US - Wells Fargo, Q3 2015 Earnings release (Before market)		
20:00	US - U.S. Federal Reserve Releases Beige Book		
	Japan - Cabinet Office Monthly Economic Report for October		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,04	-0,02	US	0,62	-0,01	DOW	17082 17081,89
DE	0,59	0,00	DE	-0,24	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,91	0,00	BE	-0,19	0,01	NIKKEI	17876 17876,23
UK	1,83	0,00	UK	0,52	-0,04	DAX	10032,82 10032,82
JP	0,31	-0,01	JP	0,01	0,00	DJ euro-50	3221 3221,28

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,136 -0,002
3y	0,121	0,966	1,130	Euribor-1	-0,11	0,00	Libor-1 USD	0,51 0,51
5y	0,345	1,368	1,439	Euribor-3	-0,05	0,00	Libor-3 USD	0,58 0,58
10y	0,960	1,987	1,864	Euribor-6	0,03	0,00	Libor-6 USD	0,75 0,75

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1394	0,0020	EUR/JPY	136,31	0,03		199,7291	1172,9	49,37
USD/JPY	119,65	-0,23	EUR/GBP	0,7457	0,0035	-1d	-2,96	17,80	-0,80
GBP/USD	1,5276	-0,0047	EUR/CHF	1,0913	-0,0031				
AUD/USD	0,7230	-0,0081	EUR/SEK	9,2592	-0,04				
USD/CAD	1,3006	-0,0042	EUR/NOK	9,2589	0,05				

## 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		
<b>Prague Research (CSOB)</b>		<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		
<b>Bratislava Research (CSOB)</b>		<b>Bratislava</b>	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
<b>Budapest Research</b>		<b>Budapest</b>	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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