



Sunrise

Tuesday, 27 October 2015

Uneventful sideways bond trading

Today, the eco calendar is well filled in the US, while in EMU the M3 money supply and lending data will be published. Interesting, but probably overshadowed by the FOMC decision (tomorrow) and BOJ decision (Friday). The German 10-year yield is testing the key 0.50% yield support. A break would be significant.

Dollar rally taking a breather

Yesterday, the decline of the euro/rally of the dollar did run into resistance as currency investors had adapted positions in the wake of the last week's events (ECB/PBOC). The focus now turns to the FOMC meeting. More consolidation might be on the cards today .

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 with most indices in the red after a day of sideways trading. **US equities** had an uneventful session. Overnight, **Asian equities** are trading with slight losses with the exception of Chinese equities which trade with some gains currently.
- Commodities prices are being pulled down with **oil prices continuing to slide**, **Brent Crude** has lost 14% over the past 20 days, **currently back at 47.1 \$/barrel**, heading for its year low since August.
- Today, the eco-calendar contains the US **durable goods orders**, the **Markit PMI data**, the **consumer confidence index** and the **Richmond Fed manufacturing index**. **The UK Q3 GDP** and the **EMU M3 money supply will be published too**. ECB's Coeuré speaks in Mexico City.
- The corporate agenda contains the **quarterly earnings (pre-open) of Pfizer** , **Merck & Co**, **Ford Motor Co**, **Apple (21:30)** and **Twitter (after close)**.

Rates

Slight bull flattening in uneventful trading session

Portugal underperforms on political uncertainty

	US yield	-1d
2	0,6372	-0,0041
5	1,393	-0,0165
10	2,0529	-0,0213
30	2,8616	-0,0282

	DE yield	-1d
2	-0,3300	-0,0110
5	-0,1030	-0,0090
10	0,5010	-0,0070
30	1,2600	-0,0170

Upside risks durables and downside risk Richmond survey and consumer confidence

UK Q3 GDP expected to remain solid, albeit less than in Q2

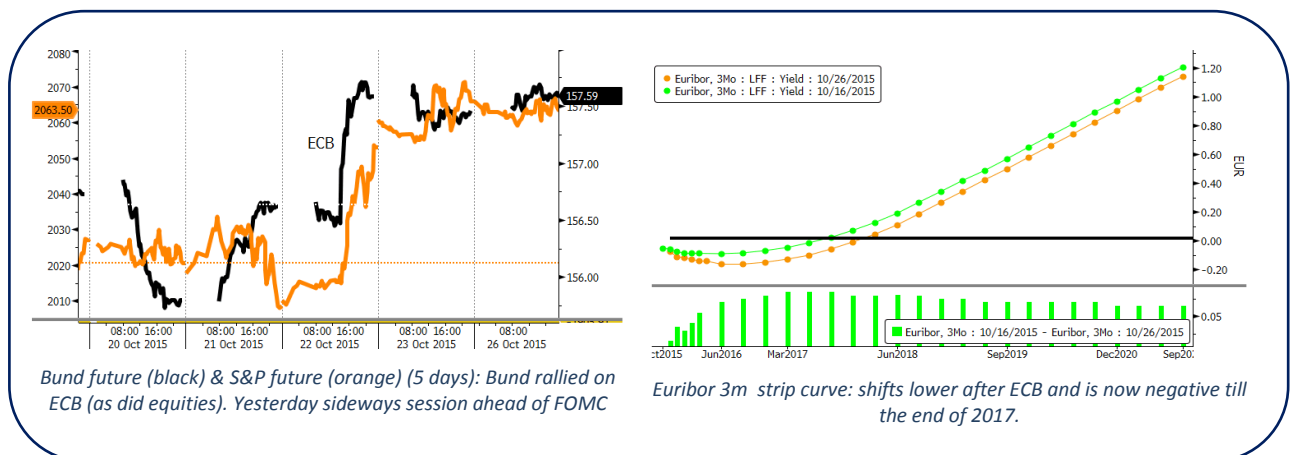
Core bonds modestly higher in uneventful trading

Global core bonds started the week on a positive note, but gains were modest and occurred in light volumes. Equities and the dollar were slightly lower following an ebullient rally at the end of last week (post ECB rally). Commodities didn't rally on the ECB and are again sliding slightly lower. **German IFO business confidence** and **US New Home sales** deviated from consensus, but couldn't really affect core bonds in a lasting way. The Bund approached the recent highs (157.79 resistance, 0.50% for the German 10-year yield), but couldn't go for a real test, just like in the past two sessions. The shadow of the upcoming FOMC meeting (to conclude on Wednesday) hangs over markets. In a daily perspective, the US yield curve bull flattened with yields up to 3.2 bps lower (30-yr). The German yield curve moved similarly with yields up to 2.5 bps lower. To conclude, moves on core bond (and other) markets were insignificant in the broader picture.

On the intra-EMU bond market, calm reigned and spreads barely moved with the exception of Portugal (+9 bps) and Greece (+11 bps). The former is due to political uncertainty (see Sunset of yesterday).

Fed shadow hangs over interesting calendar?

The US durable goods orders, the Markit PMI data and the Richmond Fed manufacturing index are up for release. **The US durable goods orders** are expected to have declined by 1.5% in September, following a decline of 2.0% in August. We expect **slight upward risks** since aircraft orders fell less than in August. **Consumer confidence** is expected to stabilize at high level, but we see some **downward risk** due to recent labour market weakness. **The Richmond Fed manufacturing index** is expected to slightly improve from -5 in September to -3 in October, giving the severe flooding in South Carolina and general weak conditions for manufacturing, **we see downward risks.** **The UK Q3 GDP data** is expected to slightly slow down on a quarterly basis, declining from 0.7% Q/Q growth to 0.6% Q/Q growth. On a yearly basis, the GDP is expected to remain 2.4% Y/Y.



R2	160,62	-1d
R1	157,79	
BUND	157,64	0,1500
S1	155,71	
S2	155,41	

The Netherlands tap two off the runs; US tap postponed

Today, the Dutch debt agency taps two off the run DSL's (4% Jul2019 & 2.5% Jan2033) for a combined €1.5-2.5B. The bonds on offer didn't cheapen in ASW spread terms going into the auction. Nonetheless, we expect the ECB's clearly dovish signal at last week's press conference to further underpin EMU bonds. Year-to-date, the Netherlands have more than 80% of this year's expected funding needs fulfilled. **In the US, the 2-yr Note auction is postponed.** Due to debt ceiling constraints, there is a risk that the Treasury would not be able to settle the 2-yr Note on Monday, Nov 2. Wednesday's 5-yr Note auction and Thursday's 7-yr Note auctions will proceed as planned.

Today: Waiting game continues

Overnight, Asian stock markets trade up to 1% lower. There are very few headlines to inspire the start of today's trading session. The US Note future trades marginally higher. If risk aversion spills to European stock indices, it could create a small safe haven bid for the Bund.

Today's eco calendar is only interesting in the US with durable goods orders, Richmond Fed Manufacturing Index and consumer confidence. The joint outcome of the eco numbers might be a mixed bag. One day ahead of the FOMC decision (press release), it shouldn't create too much buzz on markets. Overall, **spotlights remain on central banks.** The ECB's very dovish stance underpins EMU bond markets. Trading in the US will most likely be numbed by Wednesday's FOMC decision. We expect the Fed to keep policy unchanged while the statement might include more hints on the Fed's lift-off plans (December meeting still alive?). Friday's BoJ meeting will be closely monitored as well. Will governor Kuroda expand the QQE programme following pressures coming from the ECB? **Main equity indices remain a wildcard.** The ECB's very dovish message easily pushed EMU and US equities above important resistance levels, marking an end to the downward correction from a technical point of view. If risk sentiment further improves, that could hamper more gains for core bonds. **The pick-up in inflation expectations** following the ECB's announcement (Bund negative) also balances the prospect of more easing. **Therefore, we have a neutral view on core bond trading. A new test of the contract highs (especially Bund) is likely, but these resistance levels recently proved to be tough. On intra-EMU bond markets, the prospect of more political uncertainty is a short term negative for Portuguese OT's.**



German Bund: Dovish Draghi underpins Bund



US Note future: Numbed ahead of FOMC?

Currencies

Dollar rebound takes a breather ahead of the Fed

Yesterday, markets entered calmer waters after the big swings at the end of last week. The USD held most of its gains against the euro and the yen, but there were no follow-through gains for the US currency. A slowdown in the global equity rally also prevented further USD gains. USD/JPY closed the session at 121.10 from 121.47 on Friday evening. EUR/USD ended the session at 1.1058, from 1.1018.

Dollar rally slows

Asian markets are in cautious risk-off modus, weighing on the dollar.

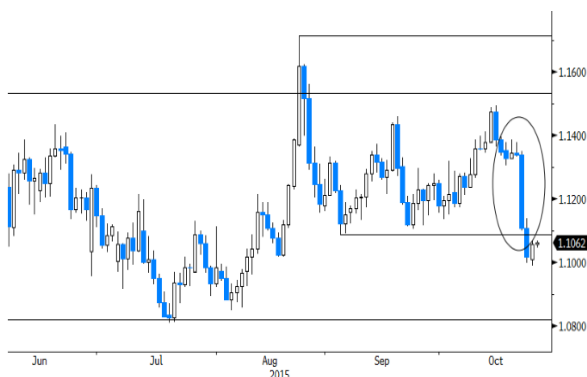
R2	1,1302	-1d
R1	1,114	
EUR/USD	1,1056	0,0014
S1	1,0989	
S2	1,0848	

Overnight, Chinese industrial profits declined by -0.1% Y/Y, quite a smaller decline compared to the last month (-8.8%). It didn't comfort Asian investors. Asian equities are in the red across the board. The equity correction is a slightly positive for the yen and a negative for the USD. USD/JPY trades in the 120.65 area. EUR/USD is changing hands in the 1.1055 area. Currency investors are looking forward for tomorrow's FOMC statement and for the BOJ's policy decision on Friday.

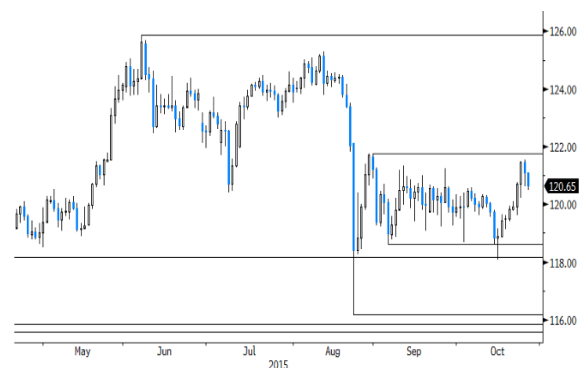
Today, the focus is on the US eco data

Today, the eco calendar in the EMU only contains the **M3 money supply data**. Markets will keep an eye at **the lending data**, but the indicator is seldom a market mover for currency trading. **In the US**, the US durable orders, the S&P/CS house prices, the Market PMI's, consumer confidence and the Richmond Fed manufacturing index will be published. **We see slight upward risks for the durable orders, but downside risk for the Richmond Fed index. Consumer confidence is expected stable at 103. Maybe there are also slight downside risks for consumer confidence (labour related), but the index remains at a lofty level.** The US data will be read against the background of this week's FOMC meeting, even as the direct impact on Fed policy of today's data will be limited. That said, weaker than expected US data could still put some pressure on the Fed to 'officially' delay a first rate hike into 2016. Such a scenario might slow the recent rally of the dollar. However, we don't expect currency investors to place big bets ahead of tomorrow's Fed decision (and to a lesser extent ahead of the BOJ decision on Friday).

Soft ECB stance caps the topside of the euro going into the FOMC meeting.



EUR/USD: post-ECB decline slows



USD/JPY: test of 121.95 resistance rejected

In a day-to-day perspective, markets are now looking forward to the Fed policy decision/statement on Wednesday. The market will focus on whether the Fed

changes its tone after the recent weaker US eco data and after the policy intentions/actions from the ECB and the PBOC. In a day-to-day perspective, the USD rally might slow which could also be the case for equities. However, especially for EUR/USD there is no reason to row against the tide. We don't expect the Fed statement to be really different from the September one. If so, the debate on a December Fed rate hike may continue. So, we expect the USD to remain rather well supported against the euro going into the FOMC decision. **In a longer term perspective, global markets recently** focused on the impact of weaker US data on the Fed rate hike path. That made the dollar vulnerable. **Last week, markets were positioned for soft ECB speak, but at the press conference, ECB Draghi went much further towards additional easing than markets anticipated.** The topside in EUR/USD (1.1460/95 resistance) was extensively tested, but the test was rejected, making it better protected. The ECB prepares markets for a new round of monetary easing which pushed EUR/USD below the key 1.1087/1.1105 support. If confirmed, this break paints a multiple top formation on the charts. The targets of this formation are in the low 1.07 area.

R2	0,7374	-1d
R1	0,723	
EUR/GBP	0,7203	-0,0005
S1	0,7168	
S2	0,7026	

Looking out for the Q3 UK GDP

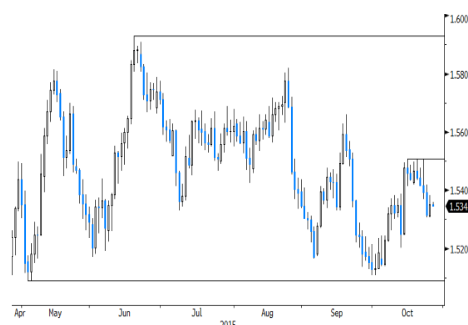
Yesterday, the UK data (BBA loans for home purchases/CBI data) missed the consensus by a substantial margin, but the impact on sterling trading was limited. Sterling trading remained at the mercy of the global trends in the euro and the dollar. Cable hovered mostly in the lower half of the 1.53 big figure, but rebounded after the poor US new home sales. The pair closed the session at 1.5352 (from 1.5314). EUR/GBP traded with a slight negative bias for most of the day, before regaining the euro losses later in the session. EUR/GBP closed the day at 0.7203, almost unchanged from 0.7194 on Friday.

Will UK GDP inspire further sterling gains?

Today, the first estimate of Q3 UK GDP will be published. The consensus expects ongoing decent growth (0.6% Q/Q, 2.4% Y/Y) supported by healthy domestic demand (and services sector growth). However, the details of the demand side of the growth story won't be available yet. A figure in line with consensus or better than consensus in theory should be slightly supportive for sterling. However, given the recent flaring up of a 'global easing campaign', there is ever growing uncertainty on the BoE's intentions. So, we expect any reaction of sterling to be guarded unless there is a really big deviation from consensus. BoE guidance will decide on the next move of sterling. **Looking at the broader picture,** the soft tone of the ECB pushed EUR/GBP back lower in the standing sideways range. The pair dropped temporarily below the 0.7196 support and the test of this level is ongoing. Euro weakness currently prevails, but EUR/GBP looks a bit oversold short-term. We look to sell EUR/GBP on upticks.



EUR/GBP tests 0.7196 support



Cable: test of 1.5508 recent top rejected

Calendar

Tuesday, 27 October		Consensus	Previous
US			
13:30	Durable Goods Orders (Sep)	-1.5%	-2.0%
13:30	Durables Ex Transportation (Sep)	0.0%	0.0%
13:30	Cap Goods Orders Nondef Ex Air (Sep)	0.2%	-0.2%
13:30	Cap Goods Ship Nondef Ex Air (Sep)	--	-0.2%
14:00	S&P/CS 20 City MoM/YoY SA (Aug)	0.10%/5.10%	-0.20%/4.96%
14:45	Markit US Composite PMI (Oct P)	--	55.0
14:45	Markit US Services PMI (Oct P)	55.5	55.1
15:00	Consumer Confidence Index (Oct)	103	103.0
15:00	Richmond Fed Manufact. Index (Oct)	-3	-5
Japan			
00:50	PPI Services YoY (Sep)	A: 0.6%	0.7%
China			
02:30	Industrial Profits YoY (Sep)	-0.1%	-8.8%
UK			
10:30	GDP QoQ/YoY (3Q A)	0.6%/2.4%	0.7%/2.4%
10:30	Index of Services MoM/ 3Mo3M (Aug)	0.2%/1.0%	0.2%/0.8%
EMU			
10:00	M3 Money Supply YoY (Sep)	5.0%	4.8%
Sweden			
09:00	Consumer Confidence (Oct)	98.4	98.7
09:00	Manufacturing Confidence s.a. (Oct)	105.5	110.1
09:00	Economic Tendency Survey (Oct)	105.0	106.8
09:30	Trade Balance (Sep)	1.7b	-3.6b
09:30	PPI MoM/YoY (Sep)	--/--	0.2%/-1.4%
Events			
10:30	UK - Auctions CTZ/BTPei		
11:10	Italy - Auctions CTZ/BTPei		
17:00	US - Holds 2-year note auction (POSTPONED)		
21:30	Apple earnings release		
23:00	EMU - ECB Executive Board member Coeure Speaks in Mexico City		
	Holland - Eur 1.5-2.5bn DSL		
	Pfizer earnings release (pre-open)		
	Ford Motor Corp earnings release (pre-open)		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,05	-0,02	US	0,64	0,00	DOW	17623 17623,05
DE	0,50	-0,01	DE	-0,33	-0,01	NASDAQ	for Exch - NQJ #VALUE!
BE	0,80	-0,01	BE	-0,27	0,00	NIKKEI	18777 18777,04
UK	1,83	-0,03	UK	0,52	-0,02	DAX	10801,34 10801,34
JP	0,31	-0,01	JP	0,01	0,00	DJ euro-50	3415 3414,60

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	Eonia EUR	-0,144	-0,01
3y	0,028	0,977	1,099	Euribor-1	-0,12	Libor-1 USD	0,51	0,51
5y	0,253	1,381	1,405	Euribor-3	-0,06	Libor-3 USD	0,58	0,58
10y	0,881	1,969	1,842	Euribor-6	0,01	Libor-6 USD	0,74	0,74

Currencies	-1d		Currencies	-1d		Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1056	0,0014	EUR/JPY	133,41	-0,13		192,2803	1164,6	47,2
USD/JPY	120,69	-0,27	EUR/GBP	0,7203	-0,0005	-1d	-1,43	1,10	-0,69
GBP/USD	1,5344	0,0028	EUR/CHF	1,0862	0,0082				
AUD/USD	0,7238	-0,0008	EUR/SEK	9,3984	0,04				
USD/CAD	1,3164	0,0001	EUR/NOK	9,2334	-0,01				

Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	Brussels	
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
Dublin Research		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	Prague	+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	Bratislava	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	Budapest	+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE ON 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 data of the report and are subject to change without notice.

