



## Sunrise

**Tuesday, 13 October 2015**

### Bonds take slow start to the week

In uneventful trading and helped by some equity weakness, German bonds gained ground, flattening the yield curve. Eco calendar is still a bit thin, but the sentiment on risk, partly determined by some quarterly earnings reports will be decisive for bond trading.

### Dollar struggles as a uncertainty on global growth persists

Yesterday, USD trading showed no clear trend as US markets were in low volume modus due to the Columbus day holiday. This morning, the dollar stays in the defensive, as Chinese data fuel investor uncertainty on global growth and thus on chances for a Fed rate hike. In the UK, the price data are important for sterling with EUR/GBP nearing key resistance.

### 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** traded mixed yesterday, after a good open most indices slid back down to close the day in the red. **US equities** had an uneventful day on national Columbus day, closing the trading day slightly in the green. Overnight, **Asian equities** are trading down, with Japan losing the most.
- **Federal reserve governor Leal Brainard, said the Fed should be watching and waiting, rather than pushing forward with rate hikes.** Ms.Brainard speech was very dovish, warning that risks on inflation and growth are tilted downward.
- **The Chinese imports for September fell by -20.4% Y/Y**, coming from a -13.8% Y/Y drop in August. **Exports also dropped -3.7% Y/Y**, doing better than the expected -6.0% Y/Y decline. It were **mostly the low commodity prices and the deteriorated domestic demand** that are **killing the countries import**.
- **Commodities** showed some big movements, **oil** exhibited its biggest drop in weeks, with **Brent Crude falling over 5% yesterday (50.15\$/barrel)** and metals also falling back, with gold(-1.2%), platinum (-1.25%) and copper (-1.8%) leading.
- Today the eco-calendar is well filled with **the US NFIB small business optimism (Sep)**. **In the UK , the Sep inflation** is released and in the Eurozone, **the German inflation (Sep) and the ZEW survey expectations (Oct)**.
- **Key corporate quarterlies are Intel Corp, Johnson & Johnson and JPMorgan Chase.**

# Rates

*German curve bull flattens in uneventful trading*

	US yield	-1d
2	0,629	-0,0120
5	1,3733	-0,0262
10	2,058	-0,0319
30	2,8867	-0,0355

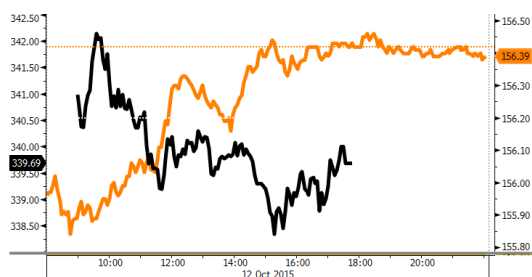
*Fed Brainard sounded very dovish and doesn't look ready to support a 2015 lift-off*

	DE yield	-1d
2	-0,2410	0,0080
5	-0,0090	-0,0120
10	0,5840	-0,0300
30	1,3340	-0,0390

## Slow start to trading week

The German Bund traded with an upward bias in an uneventful European session. A significant drop in the oil price and deteriorating sentiment on equity markets, triggered a minor safe haven bid for the Bund. The eco calendar was dead empty and US markets closed for Columbus Day Holiday. Traded volumes were extremely low, even for a Monday and could have magnified daily moves. **In a daily perspective, the German yield curve bull flattened with yields 0.8 bps (2-yr) to 4.2 bps (15-yr) lower. On intra-EMU bond markets, 10-yr yield spreads versus Germany widened up to 12 bps (Greece).**

Washington-based governor Brainard broke ranks with the other board members regarding the lift-off timing and more generally on the need to keep nurturing the US economy. She urged her colleagues not to prematurely **withdraw monetary support** given mounting risks globally and danger of low inflation. The Fed should watch and wait rather than tighten policy. Risks to growth and inflation are tilted to the downside. Risks to the near term inflation outlook are biased to the downside given the persistent low level of core inflation, falls in market-based inflation expectations and deflationary cross currents from abroad. She highlighted the danger that the Fed lifts rates only to find that it needs to lower them again. She referred to other central bankers (like ECB) who had increased rates only to lower them afterwards. She also distanced herself from Fed predictions that the tightening of the labour market is likely to feed through to higher wages and prices. **"the classic Phillips curve influence of resource utilisation on inflation is, at best, very weak at the moment."** It looks clear that she is not in favour of the 2015 lift-off and 1 of the 4 governors that distances herself from the majority.



Bund future (orange) & EuroStoxx 600 (black) (intraday): Bonds higher, equities lower in low volumes.



Brent oil: Inability to take out resistance and news about record OPEC output in September send oil price lower.

*Upside risks to NIFB confidence?*

*Further drop ZEW?*

*Start earnings season*

spread

## Well-filled eco calendar

In the US, the **NIFB business sentiment** is expected to drop from 95.9 to 95.3 (Sep). **The NIFB release is no typical market mover, but given recent bad eco news, it will be interesting whether also smaller firms are becoming less confident.** In the Eurozone, the **German ZEW expectations index** is expected to drop further down to 6.5 for October, coming from 12.1 previously. It would be the seventh consecutive monthly decline after last month's significant drop from 25.0 to 12.1. Given the market volatility and the German turmoil with the

dieselgate, we see risks on the downside of expectations. **Also on the agenda are key quarterlies from Intel Corp, Johnson & Johnson and JPMorgan Chase.**

## The Netherlands and Italy kick off supply

R2	160,62	-1d
R1	157,67	
<b>BUND</b>	<b>156,39</b>	<b>0,0000</b>
S1	153,5	
S2	152,75	

**Today, the Dutch debt agency taps the on the run 10-yr DSL (0.25% Jul2025) for €1-2B.** The bond cheapened slightly going into the auction in ASW spread terms and trades relatively cheap at the long end of the Dutch curve. Overall, we expect plain vanilla demand. **The Italian treasury launches a new 3-yr BTP (€3-3.5B 0.3% Oct2018) and taps the on the run 7-yr BTP (€2-2.5B 1.45% Sept2022) and 15-yr BTP (€0.5-1B 1.65% Mar2032).** On the grey market, the new BTP offers a 1.8 bps pick-up in ASW spread terms compared with the previous 3-yr benchmark (0.25% May2018). That corresponds with a 5 bps pick-up in yield terms. The other BTP's didn't cheapen going into the auction. On the Italian curve, the 7-yr BTP trades normal while the 15-yr BTP is rich. We expect especially the 3-yr BTP auction to go well.

## Today: Equity and commodity markets key

**Overnight,** the US Note future trades stable despite dovish comments by Washington-based governor Brainard (see above). ECB Mersch said that the ECB would act if the inflation outlook weakens. Sentiment on Asian equity markets is negative, with main indices up to 1% lower.

**Today, US investors return from Columbus Day Holiday.** The eco calendar contains German ZEW and US small business optimism, but we expect the outcomes to be near consensus. Therefore, **evolutions on commodity and equity markets could be the main trading theme.** Yesterday, the rebound of commodity prices halted with oil eventually even losing \$3/barrel. A new slump in commodities is a positive for core bonds. Also the comeback of equity markets shows early signs of topping off. **A correction lower should again be positive for core bonds, which held up well during the equity rally.**

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.**



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

On Monday, EUR/USD and USD/JPY ended an uneventful session little changed

R2	1,1714	-1d
R1	1,146	
EUR/USD	1,1374	0,0005
S1	1,1087	
S2	1,1017	

Overnight, sentiment on risk turned slightly risk off, weighing on USD/JPY

EUR/USD shows no clear trend

## Dollar on the defensive

On Monday, trading in EUR/USD, in USD/JPY and other USD cross rates was technical in nature. There were no eco data and US bond markets were closed in observance of Columbus Day. EUR/USD retested the recent highs, but at the end of the day, the pair was unchanged at 1.1258. USD/JPY ended the session marginally lower at 120.04 (from 120.27) as (European) equities recorded moderate losses. The commodity rally also did run into resistance, but there was no straightforward impact on the USD.

Overnight, sentiment on risk turned cautious. Most Asian equity indices show modest losses with Japan underperforming. The Chinese September trade surplus was much bigger than expected, but the details were mixed. Exports declined less than expected, but imports showed a much wider than expected decline. Repercussions for global markets' trading are difficult to draw. At this stage, some disappointment on Chinese demand translates into a slight risk-off sentiment. Commodities are falling prey to profit taking after the recent rally. This weighs on the Aussie dollar with AUD/USD drifting back south to the 0.73 area. The correction on Japanese equity markets sent USD/JPY back below the 120 level (at 118.85 currently). EUR/USD shows no clear directional trading pattern. The pair hovered between 1.1345/70 overnight.

Today, the calendar is modestly interesting. In Europe, we look out for the final German CPI data and the ZEW investors sentiment. The ZEW is expected to decline, both for the current conditions and the expectations component. We see downside risks compared to the consensus. This should be a slightly negative for the euro. However, over the previous days, the reaction function of the euro was far from straightforward. In the US, the NFIB small business confidence is expected to decline slightly from 95.9 to 95.5.e For this indicator, we don't have strong views.



EUR/USD: holding near the recent highs



USD/JPY hovers around the 120 pivot

*EUR/USD is drifting higher. EUR/USD 1.1460 resistance is coming on the horizon*

**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. In this context, the dollar is vulnerable 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.

**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).**

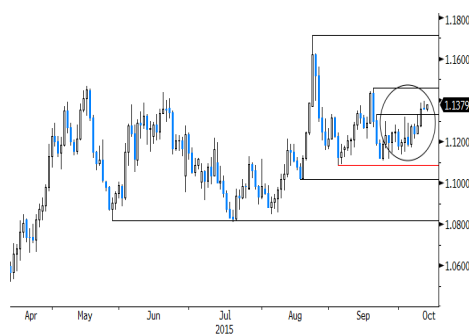
R2	0,7483	-1d
R1	0,7443	
EUR/GBP	<b>0,7422</b>	0,0007
S1	0,7196	
S2	0,715	

### EUR/GBP holding near the recent highs

**On Monday,** sterling was in better shape compared to the end of last week. As was the case for the euro and the dollar, there was also no high profile news to guide sterling trading. Cable this time outperformed EUR/USD. EUR/GBP declined back to the 0.74 area. The pair closed the session at 0.7400 (from 0.7416). Cable came close to a first resistance at 1.5383 (last week top), but finally closed the session at 1.5348 (from 1.5322 on Friday).

**Overnight, BRC retail sales were reported stronger than expected.** However, **it didn't help sterling.** On the contrary, sterling is losing ground against the euro and the dollar. Today, the sterling session may be interesting **with the UK price data.** CPI inflation is expected unchanged at 0.0% Y/Y. **A below consensus report might be negative for sterling, as it will give the BoE more time to assess the need for a rate hike.** BOE McCafferty and Vlieghe will testify before UK lawmakers. BoE Haldane will speak later today. McCafferty voted for a rate hike. Haldane stands on the dovish side. Yesterday, it looked temporary that sentiment on sterling could improve, but it isn't confirmed this morning. So, for now EUR/GBP will probably hold near the recent highs, especially if EUR/USD remains will bid, too.

**From a technical point of view,** EUR/GBP still trades in the upper part of the sideways range capped by 0.7483. Previous highs at EUR/GBP 0.7423/43 are under test but no sustained break occurred yet. 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 can still be considered.



EUR/GBP holds near the recent highs/range top



Cable rebound running into resistance

# Calendar

Tuesday, 13 October		Consensus	Previous
<b>US</b>			
12:00	NFIB Small Business Optimism (Sep)	95.3	95.9
	Monthly Budget Statement (Sep)	\$95.0b	--
<b>Canada</b>			
16:00	Bloomberg Nanos Confidence (Oct 9)	--	55.6
<b>Japan</b>			
07:00	Consumer Confidence Index (Sep)	41.6	41.7
08:00	Machine Tool Orders YoY (Sep P)	--	-16.5%
<b>UK</b>			
01:01	BRC Sales Like-For-Like YoY (Sep)	1.5%	-1.0%
10:30	CPI MoM/YoY (Sep)	0.0%/0.0%	0.2%/0.0%
10:30	CPI Core YoY (Sep)	1.1%	1.0%
10:30	PPI Input NSA MoM/YoY (Sep)	0.3%/-13.0%	-2.4%/-13.8%
10:30	PPI Output NSA MoM/YoY (Sep)	-0.1%/-1.8%	-0.4%/-1.8%
10:30	PPI Output Core NSA MoM (Sep)	0.0%/0.2%	0.0%/0.1%
10:30	ONS House Price YoY (Aug)	5.0%	5.2%
<b>EMU</b>			
11:00	ZEW Survey Expectations (Oct)	--	33.3
<b>Germany</b>			
08:00	CPI MoM/YoY (Sep F)	-0.2%/0.0%	-0.2%/0.0%
08:00	CPI EU Harmonized MoM/YoY (Sep F)	-0.3%/-0.2%	-0.3%/-0.2%
11:00	ZEW Survey Current Situation (Oct)	64.0	67.5
11:00	ZEW Survey Expectations (Oct)	7.0	12.1
	Wholesale Price Index MoM/YoY (Sep)	--/--	-0.8%/-1.1%
<b>China</b>			
	Trade Balance (Sep)	\$48.21b	\$60.24b
	Exports YoY (Sep)	-6.0%	-5.5%
	Imports YoY (Sep)	-16.0%	-13.8%
<b>Norway</b>			
10:00	House Price Index QoQ (3Q)	--	1.2%
<b>Sweden</b>			
09:30	CPI MoM/YoY (Sep)	0.3%/0.0%	-0.2%/-0.2%
09:30	CPI CPIF MoM/YoY (Sep)	0.4%/1.0%	-0.1%/0.8%

Events	
08:30	EMU - ECB's Mersch Speaks in Singapore
08:30	Sweden - Riksbank Deputy Governor Floden Speech on Inflation Tgt
10:30	UK - Bank of England Credit Conditions & Bank Liabilities Surveys
11:00	Holland - Eur 1-2bn 0.25% Jul 2025 DSL
11:10	Italy - Eur 3-3.5bn 0.3% Oct 2018, Eur 2-2.5bn 1.45% Sep 2022, Eur 0.5-1bn 1.65% Mar 2032 BTPs
14:00	US - Fed's Bullard Speaks to NABE in Washington

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,06	-0,03	US	0,63	-0,01	DOW	17132 17131,86
DE	0,58	-0,03	DE	-0,24	0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,90	-0,04	BE	-0,20	-0,03	NIKKEI	18257 18257,32
UK	1,82	-0,04	UK	0,56	-0,01	DAX	10119,83 10119,83
JP	0,32	-0,01	JP	0,02	0,00	DJ euro-50	3247 3247,33

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	0,123	0,991	1,138	Euribor-1	-0,11	0,00	Eonia EUR	-0,134	0,008
5y	0,345	1,401	1,440	Euribor-3	-0,05	0,00	Libor-1 USD	0,51	0,51
10y	0,955	2,020	1,861	Euribor-6	0,03	0,00	Libor-3 USD	0,58	0,58
							Libor-6 USD	0,75	0,75

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1374 0,0005	EUR/JPY	136,28 -0,30		202,6893	1155,1	50,17
USD/JPY	119,88 -0,27	EUR/GBP	0,7422 0,0007	-1d	1,39	-8,60	-2,75
GBP/USD	1,5323 -0,0004	EUR/CHF	1,0944 0,0012				
AUD/USD	0,7311 -0,0019	EUR/SEK	9,296 -0,02				
USD/CAD	1,3048 0,0130	EUR/NOK	9,2041 0,02				

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