



Sunrise

Monday, 02 November 2015

Rates: US eco data key

Focus turns to US eco data and Fed speakers this week. Today, the US manufacturing ISM risks falling below the 50 boom/bust mark for the first time since the end of 2012. That's supportive for US Treasuries though this week's back-loaded agenda (payrolls on Friday) might keep a lid on trading.

Currencies: Dollar consolidation/correction on the cards?

On Friday, there was some limited profit taking on the recent USD rally. However, the global picture didn't change. Today, the focus for USD trading is on the manufacturing ISM/PMI's. A soft US report might inspire a limited further setback of the USD dollar. A risk-off correction also wouldn't help the US currency.

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 Friday's trading with small losses for the 2nd day in a row after a good open. **US equities** ended Friday's session in the red after an end-of-the-day slide. Overnight, most **Asian equity markets suffer significant losses**.
- **The Chinese Caixin manufacturing PMI improved from 47.2 in September to 48.3 in October**, but still remains under 50, suggesting **that the economic activity contracted in the sector for the eight month in a row**.
- **Rating agency S&P cut Saudi Arabia's credit rating on Friday to "A+" from "AA-" with a negative outlook**. S&P warned that another cut could be on its way as the country's fiscal situation deteriorates with the collapse in oil prices.
- Yesterday, **Turkey's Islamist-rooted AK Party from president Tayyip Erdogan won the elections**, returning the country to a single-party rule, after seizing a comfortable **majority in the 550-seat parliament**. The Lira has strengthened more than 5% on the news.
- Today the eco-calendar is full of manufacturing PMI's (US ISM, UK and EMU final) **On the corporate calendar are the earnings releases from VISA & Ryanair**.
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Rates

Slight gains for core bonds in quiet, uneventful trading

	US yield	-1d
2	0,7322	0,0082
5	1,5119	-0,0066
10	2,1332	-0,0233
30	2,9119	-0,0430

	DE yield	-1d
2	-0,3200	-0,0060
5	-0,0810	-0,0150
10	0,5250	-0,0140
30	1,2610	-0,0110

Fed Williams: Oct. meeting used to influence market positioning. Data-dependence still prevails.

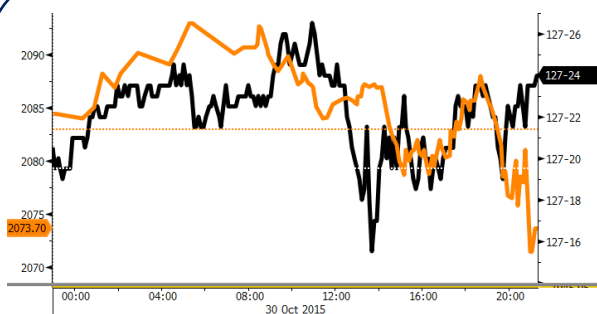
Draghi: too early to judge on need lowering deposit rate

Post-FOMC sell-off pauses

On Friday, global core bonds enjoyed a quiet trading session following the post-FOMC sell-off. The eco data were mostly ignored, but month end extension buying and some minor risk-off/profit taking in equities helped core bonds to some modest gains. In a daily perspective, the US yield curve bull flattened with yield changes flat (2-yr) to 3.7 bps (30-yr) lower. Changes on the German yield curve were limited between +1 bp (2-yr) and -1.3 bps (10 and 30-yr). In EMU, **German retail sales** and **French consumer spending** were weaker than expected, while the EMU unemployment rate unexpectedly fell. **EMU HICP inflation** was as expected flat Y/Y in October, but core HICP was a tick higher at 1% Y/Y. Also **US eco data** were a bit mixed with the **Employment Cost Index** as expected up 0.6% Q/Q in Q3, but still 2.1% Y/Y showing little signs of wage pressure. The **Chicago PMI** jumped sharply higher, but the **final Michigan consumer sentiment** was downwardly revised. Interestingly, consumer long term inflation expectations eased to 2.5% matching the lowest level in 25 years. **PCE and core PCE deflators** stabilized at 0.1% Y/Y and 1.3% Y/Y, defying expectations for a slight rise. However, markets broadly ignored the data.

Fed Williams and ECB Draghi temper expectations

On Friday, Fed Williams said that the Fed inserted language in the statement about a possible rate increase at the next meeting to avoid surprising investors. So, December is a live meeting. The Fed has yet to decide on the lift-off timing and awaits more data. **This clarification suggests the Fed is more neutral than hawkish when thinking about the timing of the lift-off.** In an interview, **Mr. Draghi** repeated that the ECB will take the necessary actions if the inflation outlook is at risk and will see whether more stimuli are needed. He added that it is **too early to judge whether it will be needed to lower the deposit rate.** That suggests that the ECB may keep the deposit rate for in case the euro would strengthen. The decline of the euro makes it less compelling.



US Note future (black) and S&P (future) (intraday): US Treasuries trade sideways following the post-FOMC sell-off. Equities end a bit lower, but don't give significant message



S&P 500 takes a breather as highs loom

Manufacturing surveys key factors today

The US **manufacturing ISM** is expected to have marginally decreased from 50.2 in September to 50.0 in October. We see some downside risks, based on the regional manufacturing indicators. In the **UK**, the **manufacturing PMI** for

Monday, 02 November 2015

October is expected to slightly decline from 51.5 to 51.2. We see no specific risks to this number. In the **euro zone**, the final reading of **the PMI manufacturing** is expected to remain stable at 52.0. We side with the consensus expectations.

R2	160,62	-1d
R1	158,6	
BUND	157,32	0,1900
S1	155,71	
S2	155,41	

EMU Supply relatively small

This week's scheduled EMU bond supply comes from Austria, Spain and France. Tomorrow, the Austrian debt agency taps the on the run 10-yr RAGB (1.2% Oct2025) and 20-yr RAGB (2.4% Mar2034) for a combined €1.32B. On Thursday, the French Treasury auctions the on the run 10-yr OAT (1% Nov2025) & 15-yr OAT (1.5% May2031) and the off the run OAT (3.5% Apr2026) for a total amount of €7-8N. The Spanish Treasury sells the on the run 10-yr Obligacion (2.15% Oct2025) and 30-yr Obligacion (5.15% Oct2044). This week's supply will be supported by a €17B BTP-redemption.

Overnight, most Asian stock markets trade with losses. Japanese stocks underperform. The Caixin Chinese manufacturing PMI was stronger than expected, but remains below the 50 boom/bust mark. The official PMI's (manufacturing & non-manufacturing) were steady in October, but the manufacturing gauge also remains sub-50. The US Note future is marginally higher, suggesting a decent opening for the Bund.

Today's main item on the agenda is the US manufacturing ISM. Consensus expects a decline to 50 with risks on the downside of expectations. That would push the ISM in contraction territory for the first time since the end of 2012 and trigger all sorts of headlines about the negative impact from the global growth slowdown on the US economy. That's a positive for US Treasuries today. SF Fed Williams (see above) talks which is a wildcard together with sentiment on equity markets. In Friday's final trading hours, the S&P lost some ground. Simple profit taking ahead of the weekend or the start of a more pronounced correction? **Later this week, focus remains on US eco data (payrolls) and Fed speakers. The calendar is back loaded, which could keep a lid on trading at the start.**

The Fed bought an option for a December lift-off, though the central bank remains data-dependent. In case of solid eco data, that's a longer term negative for US Treasuries. Technically, the US Note future dropped below first support at 128-05+. **We believe that there is more downside with next support at 126-16.** The ECB on the other hand keeps a firm easing bias, which underpins EMU bond markets. Therefore, we expect only very limited spill over from higher US rates to Europe. US/German yield spreads should widen on this clear divide in monetary policy stance.



German Bund: off the highs following after Fed, but uptrend remains in place



US Note future: More downside after hawkish Fed

Currencies

USD rally running into resistance, for now.

USD rally taking a breather

R2	1,114	-1d
R1	1,1096	
EUR/USD	1,10275	0,0037
S1	1,0848	
S2	1,0715	

Sentiment in Asia turns risk-off as Chinese eco data fail to convince

The dollar is slightly in the defensive

Today, the focus is on the EMU manufacturing PMI's and, even more on the US ISM

On Friday, the last trading day of the month, investors secured some of the recent dollar gains. The dollar drifted lower against the euro and the yen during most of the session. The eco data in Europe were OK. The US data were mixed, but the dollar lost slightly further ground after a weaker than expected final Michigan confidence. However, the setback of the dollar was short-lived. The dollar even regained most of the losses later in the session, even as Fed Williams 'downplayed' the hawkish tone of the Fed policy statement. EUR/USD closed the session at 1.1006 (from 1.0977). USD/JPY ended the day at 120.62 (from 121.13).

During the weekend, ECB's Draghi repeated the ECB's intention to ease policy further, but its tone on a further reduction of the deposit rate was less outspoken. The official Chinese manufacturing PMI's were slightly weaker than expected, while the Caixin manufacturing PMI this morning improved more than expected from 47.2 to 48.3. Even so, the data don't help Asian equity markets, which trade well in the red. USD/JPY is holding a rather tight range in the lower half of the 120 big figure. EUR/USD opens slightly stronger this morning (1.1035) as the risk-off sentiment is weighing slightly on the USD across the board.

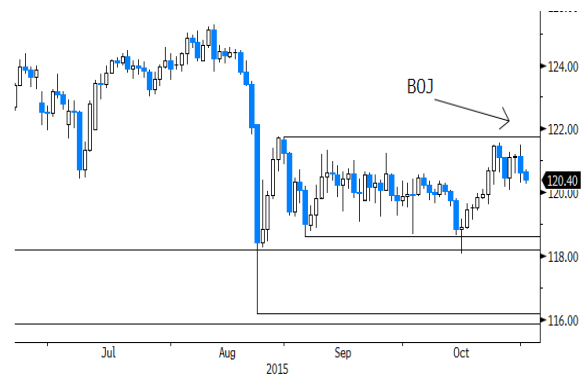
Later today, the focus will be on the final EMU PMI manufacturing confidence. Of late, sentiment indicators from the EMU were rather encouraging. So, we expect the preliminary figure to be confirmed, which shouldn't affect the euro much or at the margin be slightly positive. In the US, the focus will be on the manufacturing ISM. A further decline from 50.2 to 50.0 is expected, but we see downward risks, which might be a negative for the dollar.

Aside from the eco data, global sentiment on risk might again become more important for USD trading. There are tentative signs that the recent 'global' equity rebound is losing momentum. In case of some further equity profit taking it might be a slightly negative for the dollar. In a day-to day perspective, both the eco data and global sentiment on risk suggest some downside risks for the dollar at the start of the new trading week. At least, there is no reason to anticipate a new meaningful up-leg of the dollar now, unless the US eco data would surprise in the upside or unless the Fed speaks clearer on a December rate hike. Especially, the latter is unlikely ahead of the payrolls.

Over the previous two weeks; the market focus changed in favour of the



EUR/USD: consolidation after the post-FOMC USD rally



USD/JPY: little changed even as sentiment on risk turns negative

dollar. At the ECB press conference, ECB Draghi surprised markets by suggesting that additional easing was forthcoming. This pushed EUR/USD below the key 1.1087/1.1105 support. Last week's Fed policy statement 'confirmed' a policy divergence between the Fed and ECB, pushing EUR/USD further south in the LT consolidation pattern. 1.0819 is a first important support area. The targets of the multiple top with neckline in the 1.1087/1.1105 are in the low 1.07 area. Some short-term consolidation on the recent USD rally is possible, but there is no reason to fight the euro negative/USD positive tide.

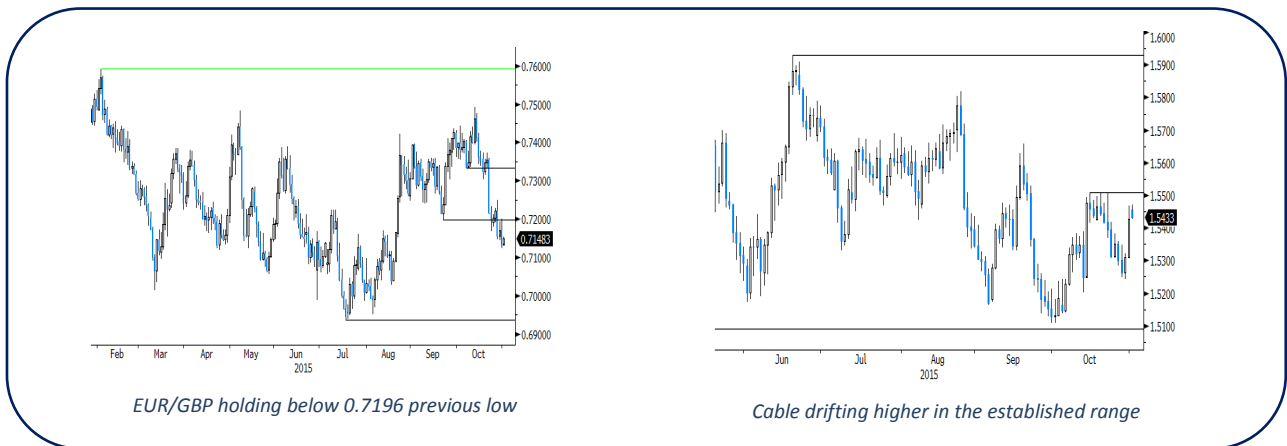
R2	0,7374	-1d
R1	0,725	
EUR/GBP	0,7145	-0,0016
S1	0,7123	
S2	0,7036	

UK manufacturing sector to lose further momentum?

Trading in cable and in EUR/GBP was mostly driven by technical considerations. Initially, cable and EUR/USD moved more or less in lockstep, keeping EUR/GBP in a directionless sideways range. Later in the session, fortunes changed in favour of sterling. The initial decline of the dollar was reversed and in this move cable finally outperformed EUR/USD. Cable closed the session at 1.5428, from 1.5310. EUR/GBP tested the 0.72 level intraday, but finally closed the session at 0.7133 (from 0.7170). So, after all, it was a constructive session for sterling investors even as there was little UK specific news.

Today, the UK manufacturing PMI will be published. Recently, growth momentum in this part of the economy declined rather sharply. For October a further decline from 51.5 to 51.3 is expected. The services sector is more important for UK growth than the manufacturing one. Even so, a below consensus figure might be a temporary negative for sterling.

Looking at the broader picture, the soft tone at the ECB press conference pushed EUR/GBP back lower in the longstanding sideways range. The pair tested the 0.7196 support, but the level was 'really' broken after the FOMC announcement. We maintain a sell-on-upticks approach for EUR/GBP.



Calendar

Monday, 2 November		Consensus	Previous
US			
15:45	Markit US Manufacturing PMI (Oct F)	54.1	54.0
16:00	Construction Spending MoM (Sep)	0.5%	0.7%
16:00	ISM Manufacturing (Oct)	50.0	50.2
16:00	ISM Prices Paid (Oct)	--	38.0
Japan			
02:35	Nikkei Japan PMI Mfg (Oct F)	A: 52.4	52.5
06:00	Vehicle Sales YoY (Oct)	A: 0.2%	-3.0%
China			
02:45	Caixin China PMI Mfg (Oct)	A: 48.3	47.2
UK			
10:30	Markit UK PMI Manufacturing SA (Oct)	51.2	51.5
EMU			
10:00	Markit Eurozone Manufacturing PMI (Oct F)	52.0	52.0
Germany			
09:55	Markit/BME Germany Manufacturing PMI (Oct F)	51.6	51.6
France			
09:50	Markit France Manufacturing PMI (Oct F)	50.7	50.7
Italy			
	Budget Balance (Oct)	--	-17.5b
09:45	Markit/ADACI Italy Manufacturing PMI (Oct)	--	52.7
18:00	New Car Registrations YoY (Oct)	--	17.15%
Norway			
09:00	Manufacturing PMI (Oct)	--	47.3
10:00	Credit Indicator Growth YoY (Sep)	--	5.8%
Spain			
09:15	Markit Spain Manufacturing PMI (Oct)	51.8	51.7
Sweden			
08:30	Swedbank/Silf PMI Manufacturing (Oct)	--	53.3
Events			
	EMU - ECB's Lautenschlaeger Speaks in Frankfurt		
18:00	US - Fed's Williams Gives Welcome Remarks at SF Fed Conference		
Before market open	Earnings releases from Visa, HSBC		
	Earnings releases from Ryanair, Commerzbank		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,13	-0,02	US	0,73	0,01	DOW	17664 17663,54
DE	0,53	-0,01	DE	-0,32	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,82	0,00	BE	-0,28	0,00	NIKKEI	18683 18683,24
UK	1,92	-0,01	UK	0,61	0,02	DAX	10850,14 10850,14
JP	0,31	0,01	JP	0,01	0,00	DJ euro-50	3418 3418,23

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,129 0,014
3y	0,045	1,086	1,163	Euribor-1	-0,12	0,00	Libor-1 USD	0,51 0,51
5y	0,270	1,472	1,491	Euribor-3	-0,07	0,00	Libor-3 USD	0,58 0,58
10y	0,898	2,034	1,927	Euribor-6	0,00	0,00	Libor-6 USD	0,73 0,73

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,10275	0,0037	EUR/JPY	132,8	0,14		194,1585	1141,15	49,57
USD/JPY	120,42	-0,30	EUR/GBP	0,7143	-0,0018	-1d	0,00	-5,96	1,00
GBP/USD	1,5433	0,0091	EUR/CHF	1,0877	0,0005				
AUD/USD	0,7143	0,0026	EUR/SEK	9,4	0,02				
USD/CAD	1,3073	-0,0069	EUR/NOK	9,3506	-0,05				

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