



Sunrise

Tuesday, 17 November 2015

Rates: More sentiment-driven trading?

US equities staged an impressive rally after European closure, putting US Treasuries under further downward pressure. Opening losses for the Bund will likely be dampened by dovish comments from ECB's Praet. Later today, sentiment on equity and commodity markets remains key. On the eco calendar, US CPI is the main release.

Currencies: Dollar resumes uptrend

The risk-off sentiment in the wake of the Paris attacks faded soon. The dollar reversed earlier losses and finally resumed its uptrend supported by strong equities and, to a lesser extent, by a decline in commodities. Today, the focus is on the US CPI. However, it is unlikely that it will change the Fed/ECB divergence trade which is driving EUR/USD currently.

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	↓

- Despite the horrendous terrorist attacks of Friday evening, **European equities** closed yesterday's session with moderate gains. **US equities** closed the trading day with nice gains after an impressive afternoon rally. Overnight, **Asian equities** are rising on the back of a solid rebound in the US. Indices show decent gains across the board.
- The Reserve Bank of Australia Minutes** were quite **upbeat about the state of the Australian economy as its activity is shifting** away from the falling mining sector to non-mining sectors. However, **there were some dovish statements about inflation.**
- Greece has unlocked the stalled aid package as it reached a deal with its lenders over the necessary reforms.** The Greek parliament is passing the new set of reforms in a week.
- Commodity prices continue to fall** as **copper** prices melted another **-1.4%**. Also the precious metals take big hits as **palladium falls -2%** and heads to its 5-year low.
- Today the eco-calendar contains the **CPI inflation, industrial production and the NAHB housing market index in the US**. German ZEW and UK CPI are also on the agenda. **ECB Lautenschlaeger and Fed's Tarullo are scheduled to speak.**
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Rates

No lasting impact Paris attacks on markets

Slight gains Bunds, rather flat US Treasuries

	US yield	-1d
2	0,8591	0,0284
5	1,6621	0,0333
10	2,2746	0,0299
30	3,0648	0,0313

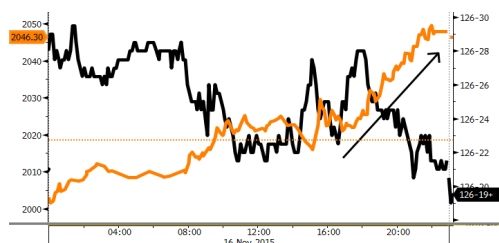
	DE yield	-1d
2	-0,3712	0,0032
5	-0,1113	0,0034
10	0,5416	-0,0030
30	1,3934	-0,0273

No firm risk-off following Paris attacks

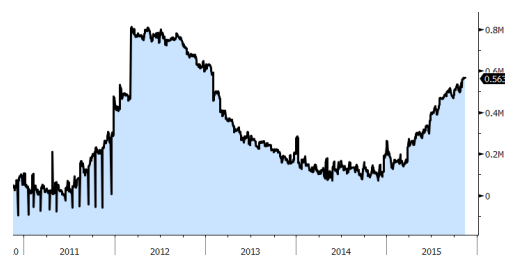
The impact of the Paris terrorist attack didn't lead to a globalized risk-off sentiment. Global core bonds were only very temporary positively affected, before erosion of the gains kicked in. Sentiment on equity and commodity markets was the main driver for bonds. After European closure, US equities shot almost 1.5% higher. Oil was heavily hit, but managed to rally back, closing with gains too. Other commodities like copper, on the other hand, kept falling, also overnight. The dollar gained across the board. **In this context, core bonds showed resilience.** In a daily perspective, the German yield curve flattened with yield changes going from +0.5 bps (2-yr) to -3 bps (30-yr). US yields increased up to 1.6 bps (2-yr) with the belly outperforming the wings. **On intra-EMU bond markets**, 10-yr yield spreads versus Germany widened up to 4/3 bps (Spain & Italy) with Greece and Portugal outperforming (-2, -5 bps).

Key US eco releases and German ZEW confidence

US CPI inflation is expected to have increased to 0.1% Y/Y in October, coming from 0.0% Y/Y in September. **Core inflation** is expected to have remained stable at 1.9% Y/Y. We expect the inflation picture to remain primarily driven by increases in services prices and weakness in the energy/goods prices. Nevertheless, **we take no distance of the consensus. Many Fed speakers said that the start of the tightening cycle is contingent on their confidence that inflation will return to 2% over the medium term. So, while inflation is a lagging indicator of activity, it is an important piece of info and even small surprises are potentially market moving.** The **October industrial production** is expected to have increased from -0.2% M/M to 0.1% M/M, which is expected to result in a capacity utilization rate of 77.5%. Manufacturing activity thus remains tepid in line with the overall situation of manufacturing. Lastly, there is the release of the **NAHB homebuilder sentiment index**, which is expected to remain stable at a high 64, the strongest in 10 years. There are downside risks, but that shouldn't affect the overall strong tenure of the sector. In the Eurozone, **Germany's ZEW survey** on investors' sentiment is expected to remain stable at 55.2 in November, but the expectations index should increase from 1.9 to 6.0 in November.



T-Note future (black) & S&P future (orange): Initial risk-off gains bonds erode fast. US equities stage rally in later US trading



ECB excess liquidity: If ECB lowers deposit rate, it will cost the banks dearly

R2	160,62	-1d
R1	158,6	
BUND	157,23	0,0400
S1	156,51	
S2	154,81	

Extension of scope PSPP organized?

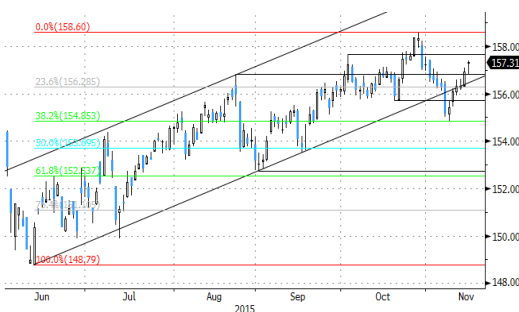
The **EU Commission published a clarification regarding the European regions and local authorities (not exhaustive list) which will receive similar prudential treatment as their central government**. It puts the regional debt of all European countries on the same level. Their debt will receive 0% risk weighting and fall in LCR level 1 category. While it was not stipulated as such, it looks no coincident that is published before the ECB meeting. The ECB may decide to extend its assets purchases (PSPP) to these entities. The main beneficiaries are the German Länder given the big amount of their outstanding bonds. In theory, these bonds should benefit from the decision.

Today: Neutral bias; US CPI wildcard

Overnight, Asian stock markets have a strong run on the back of yesterday's impressive closure of WS (+1.5%; Europe flat). The US Note future trades marginally lower. **ECB chief economist Praet** warned that inflation expectations could become de-anchored while there's still a lot of slack. That's a dangerous cocktail. He added that's why the ECB considers further action. Praet's comments could dampen any opening losses for the Bund.

Today's eco calendar contains US inflation data and the German ZEW-indicator. We believe that the data will be near consensus. For US Treasuries such CPI release should be sufficient to strengthen the Fed's case for a December lift –off. Therefore it's marginally negative for US Treasuries. In case of a negative CPI surprise, we fear it will be difficult for the US Note future to eke out decent gains. **Sentiment on equity and commodity markets is a wildcard for today's session**.

Technically, both **the US T-Note and the Bund regained lost support levels**. The Dec T-note future is back above key 126-16 support (US 10-yr yield below 2.3% resistance). Nevertheless, **we hold our sell-on-upticks for US Treasuries** anticipating the start of the Fed's tightening cycle in December.. **The Bund** is back in the uptrend channel (bottom 156.44 today). **We remain more neutral given the ECB's easing bias and the elevated chance of additional QE and a deposit rate cut in December**.



German Bund: back in upward trend channel



US Note future: short term consolidation but sell on upticks anticipating monetary tightening cycle

Currencies

Dollar remains in the driver's seat as risk-off sentiment fades. A decline in industrial commodities is a USD negative as well.

R2	1,1072	-1d
R1	1,0809	
EUR/USD	1,0667	-0,0071
S1	1,0521	
S2	1,0458	

Asian markets join the risk-on rebound from the US. The dollar remains in good shape.

German ZEW confidence and US CPI in focus today.

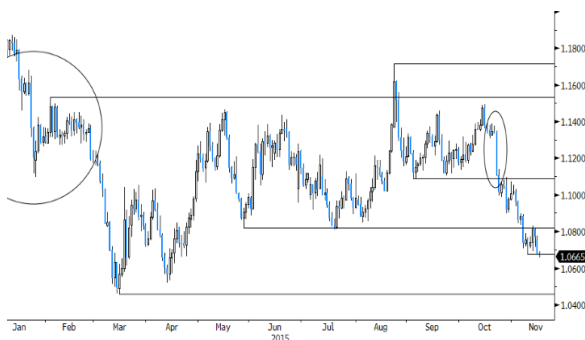
No reason to fight the Fed/ECB divergence trade.

Dollar resumes uptrend

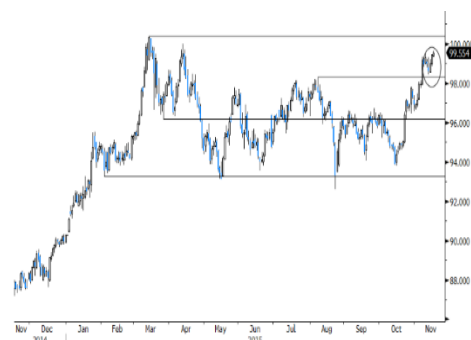
On Monday, investors looked out for a potential reaction of global (currency) markets to the terror attacks in Paris. However, the reaction on most markets was modest. Early risk-off weakness in USD/JPY was reversed during the day. The dollar remained well bid further out in the US trading session as US equities extended gains. Weakness in commodities like copper and gold probably supported the dollar as well. EUR/USD closed the session at 1.0686 down from 1.0773. USD/JPY ended the session at 123.18, up from 122.61 on Friday evening.

Overnight, Asian equities extend the risk-on rally from the US yesterday evening. We didn't see a specific trigger. The rebound is probably in the first place a technical correction on recent weakening. At the same time, industrial commodities like copper continue to suffer substantial losses. A risk-on context with at the same time a decline in a big part of the commodity complex proves to be a healthy context for the dollar. The decline of EUR/USD accelerated as the pair dropped below last week low (1.0675). The pair trades currently in the 1.0660 area. USD/JPY also continues trending north. The pair trades currently in the 123.40 area. Last week's top of 123.60 is coming within reach.

Later today, the eco calendar contains the **ZEW investor confidence survey**. A stabilisation at 55.2 is expected. Expectations for a substantial ECB meeting are more or less cemented. So, there is probably a big deviation from consensus needed for the ZEW to have a lasting impact on EUR/USD trading. In the US, the calendar is well filled and contains **the CPI, the real earnings, the production data and the NAHB housing market index**. The CPI is the most important one for currency trading. Headline inflation is expected to 'rebound' to 0.2% M/M and 0.1% Y/Y. (from 0.0% Y/Y). Core inflation is expected at 0.2% M/M and 1.9% Y/Y (a similar reading as last month). We don't have strong arguments to take a different view from the consensus. A lower than expected CPI figure could slow the recent ascent of the dollar. However, a big negative surprise is probably needed to change market expectations for a Fed rate hike in December.



EUR/USD: policy divergence trade dominates



USD(trade-weighted) nearing the cycle high

In a day-to-day perspective, one can only take notice of the fact that sentiment on risk remains very solid despite the terrorist attacks in Paris. At least for now,

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.

this risk-on sentiment continues to support the dollar. Quite some Fed tightening and quite some ECB easing should already be discounted at the current levels. The trade-weighted dollar is less than 1.0% from the cycle top. Even so, for now there is no trigger visible for a trend reversal, especially not in EUR/USD. So, we don't row against the tide.

In a broader perspective, short term interest rate differentials widened in favour of the dollar. EUR/USD dropped below the 1.0809 support and reached the targets of the short-term multiple top formation (neckline 1.1087/1.1105) in the low 1.0715 rea. With policy divergence between the Fed and the ECB still in place, we don't row against the USD uptrend. However, quite some news (interest rate) is already discounted. So, the pace of the USD rally may slow. The post ECB QE lows in EUR/USD (1.0521/1.0458 area) are obvious targets on the charts. We maintain 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 is coming on the radar, but a test/break looks difficult short-term.

R2	0,725	-1d
R1	0,7197	
EUR/GBP	0,7025	-0,0027
S1	0,7018	
S2	0,6936	

EUR/GBP nearing the 0.70 barrier. CPI in focus

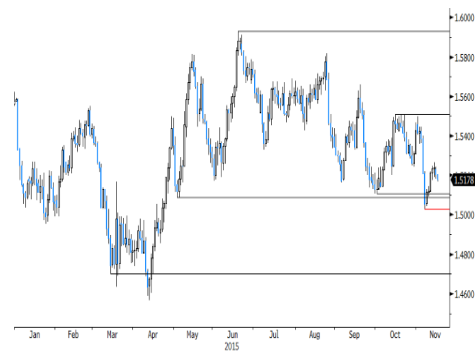
On Monday, there was again no consistent story about sterling trading, in a data-poor session. The constructive overall USD sentiment weighed slightly on cable. Today's, UK CPI release might have weighed too. Cable closed the session at 1.5182, only marginally lower from the 1.5188 close on Friday. EUR/GBP mostly followed the EUR/USD price pattern. The early losses in Asia were soon reversed and the pair settled later in a sideways consolidation pattern mostly slightly north of 0.7050. However, an USD driven decline of EUR/USD finally pushed EUR/GBP back lower. The pair closed at 0.7030 (from 0.7066).

Today, the focus for sterling trading will be on **the UK price data**. Headline CPI is expected to remain unchanged, but still in negative territory (-0.1% Y/Y). Core CPI is also expected unchanged at 1.0% Y/Y. Ongoing low inflation in the months to come gives the BoE time to fend off calls for an immediate rate hike. **This context is keeping sterling relatively weak against the dollar, but strong against an overall weak euro.** We don't expect this pattern to change soon. A higher than expected figure might stimulate the idea that the BoE could join the Fed sooner than expected. Such a scenario could be a additional positive for sterling. For now, euro weakness remains the key factor for EUR/GBP trading.

Looking at the broader picture, the soft stance of the ECB 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 after a soft BoE inflation report, but the test was rejected. **We maintain a sell-on-upticks approach for EUR/GBP.**



EUR/GBP: nearing the 0.70 barrier



Cable: test of the 1.51 support area rejected, for now

Calendar

Tuesday, 17 November		Consensus	Previous
US			
14:30	CPI MoM/YoY (Oct)	0.2%/0.1%	-0.2%/0.0%
14:30	CPI Ex Food and Energy MoM/YoY (Oct)	0.2%/1.9%	0.2%/1.9%
14:30	CPI Index NSA (Oct)	237.738	237945
14:30	Real Avg Weekly Earnings YoY (Oct)	--	2.2%
15:15	Industrial Production MoM (Oct)	0.1%	-0.2%
15:15	Capacity Utilization (Oct)	77.5%	77.5%
15:15	Manufacturing (SIC) Production (Oct)	0.2%	-0.1%
16:00	NAHB Housing Market Index (Nov)	64	64
UK			
10:30	CPI MoM/YoY (Oct)	0.1%/-0.1%	-0.1%/-0.1%
10:30	CPI Core YoY (Oct)	1.0%	1.0%
10:30	Retail Price Index (Oct)	260.0	259.6
10:30	PPI Input NSA MoM/YoY (Oct)	0.2%/-12.0%	0.6%/-13.3%
10:30	PPI Output NSA MoM/YoY (Oct)	-0.1%/-1.4%	-0.1%/-1.8%
10:30	PPI Output Core NSA MoM/YoY (Oct)	0.0%/0.4%	0.1%/0.2%
10:30	ONS House Price YoY (Sep)	5.4%	5.2%
EMU			
08:00	EU27 New Car Registrations (Oct)	--	9.8%
11:00	ZEW Survey Expectations (Nov)	--	30.1
Germany			
11:00	ZEW Survey Current Situation (Nov)	55.2	55.2
11:00	ZEW Survey Expectations (Nov)	6.0	1.9
Italy			
10:00	Trade Balance Total (Sep)	--	1850m
10:00	Trade Balance EU (Sep)	--	467m
Norway			
10:00	GDP QoQ (3Q)	0.5%	-0.1%
10:00	GDP Mainland QoQ (3Q)	0.1%	0.2%
Events			
01:30	Australia - RBA Nov. Meeting Minutes		
09:30	EMU - ECB's Sabine Lautenschlaeger Speaks at Euro Finance Week		
15:15	EMU - Bundesbank's Andreas Dombret Speaks at Euro Finance Week		
21:30	US - Fed's Tarullo Speaks on Shadow Banking at Brookings Institute		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,27	0,03	US	0,86	0,03	DOW	17483,17483,01
DE	0,54	0,00	DE	-0,37	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,85	0,02	BE	-0,23	0,08	NIKKEI	19631,19630,63
UK	1,95	-0,03	UK	0,63	-0,03	DAX	10713,23,10713,23
JP	0,30	0,00	JP	0,00	0,00	DJ euro-50	3362,3362,23

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,138,-0,006
3y	-0,009	1,210	1,172	Euribor-1	-0,14	0,00	Libor-1 USD	0,51,0,51
5y	0,235	1,596	1,489	Euribor-3	-0,08	0,00	Libor-3 USD	0,57,0,57
10y	0,907	2,137	1,926	Euribor-6	-0,01	0,00	Libor-6 USD	0,74,0,74

Currencies	-1d	Currencies	-1d	Commodities	CRB	GOLD	BRENT
EUR/USD	1,0667,-0,0071	EUR/JPY	131,63,0,19		185,4164	1078,06	44,65
USD/JPY	123,415,1,01	EUR/GBP	0,7025,-0,0027	-1d	0,65	-19,54	-0,17
GBP/USD	1,5175,-0,0050	EUR/CHF	1,0786,-0,0013				
AUD/USD	0,7082,-0,0035	EUR/SEK	9,31,-0,02				
USD/CAD	1,3334,0,0033	EUR/NOK	9,2881,-0,05				

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