



Sunrise

Thursday, 21 January 2016

Rates: Draghi expected to keep easing options open

We expect no policy change at today's ECB meeting, but think that Draghi will strike a dovish tone and keep the door for another deposit rate cut open. Such a scenario seems discounted in European bond markets. Therefore, we think the market reaction might be muted. Risk sentiment and commodity markets remain the main drivers for trading.

Currencies: Dollar nearing support levels, but no sustained break yet

Yesterday, the dollar came under rising pressure. USD/JPY tested the August low, but no sustained break occurred. EUR/USD held within recent ranges. Today, the ECB press conference and global market sentiment will be the drivers for USD trading. We also look out whether sterling enters calmer waters after yesterday's decent performance.

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	↓

- **US Equities rebounded in the second half of the trading session**, supported by an intraday rebound in the oil price. The Nasdaq closed little changed, while the S&P ended still 1.17% lower. This morning, **the sell-off in Asia continues** with both Chinese and Japanese shares losing 3%.
- **China's central bank stepped up cash injections** in its money-market operations, adding 400 billion yuan, the most in three years. A central bank official said earlier in the week cash injections should substitute for a cut in the reserve requirements ratio.
- Ahead of next week's Bank of Japan meeting, a close aide to Prime Minister Abe said **the central bank should act as conditions for additional easing have fallen into place**. This morning, BOJ governor **Kuroda said he is not thinking of adopting negative rates**, suggesting that any further easing will likely take the form of additional asset purchases.
- **Portugal's central bank has offered to partly compensate Novo Banco bondholders** who lost money when their securities were transferred to a bad bank last month. The move is an attempt to ease tensions with investors who said it discriminated certain bondholders.
- The **Brent crude oil price hit another new low yesterday** (at \$27.10/barrel), fuelling new calls for an emergency OPEC meeting. The **gold price** profits from save haven demand, trading back above \$1100/ounce.
- Today, the **focus will be on the ECB meeting** and press conference of Draghi. Regarding the data, the US jobless claims, Philly Fed index and European Commission's consumer confidence will be released.

Rates

Dramatic reversal US equities at end risk off session

Dramatic risk off session ends with a positive reversal/short squeeze oil and US equities

Nevertheless, huge bull flattening core bonds .

Peripherals at last hit by panic selling riskier assets.

Technical pictures equities remains under severe test. It isn't over yet!!

	US yield	-1d
2	0,825	-0,0084
5	1,418	-0,0067
10	1,991	-0,0053
30	2,7597	-0,0075

	DE yield	-1d
2	-0,4150	-0,0230
5	-0,1848	-0,0132
10	0,4860	-0,0690
30	1,2491	-0,0713

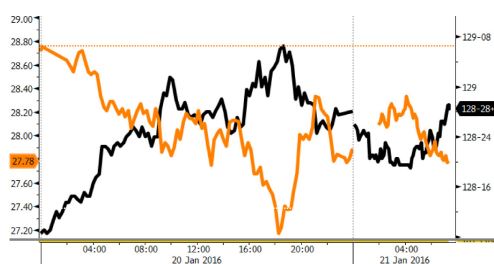
Tuesday's rebound in commodity (oil) and equity markets proved initially a dead-cat-bounce. The down-leg of riskier assets like equities, commodities (including oil) and peripheral and corporate bonds resumed. That triggered a sharp bull flattening of core yield curves, as these bonds profited from a heavy safety bid. European equities recovered some ground ahead of the US open. The Dax bounced off key support in the 9300-9400 area, i.e. the 2015 lows. The EuroStoxx 600 on the contrary set a double top formation (confirmation needed) and trades below its third uptrend line (weekly charts) from the 2011 lows. US equities were crushed after the opening (S&P up to -3.7%), amid a collapse in oil prices (Brent fell to a new low at \$27.10/barrel). However, oil prices strongly rebounded around 6:40 pm CET, attracting bottom fishers to the equity markets. A short squeeze erased all Nasdaq losses and most of the S&P losses. A renewed small drop in oil prices going towards the close was enough though to push equities modestly lower again, showing sensitivity to oil prices. The equity rebound wasn't enough to unwind US Treasuries gains, but some profit taking pushed US Treasuries off their best levels of the day. In a daily perspective, the German yield curve bull flattened with yields 1.8 bps (2-yr) to 9.7 bps (30-yr) lower. The US yield curve shifted in a similar way with yields 4.9 bps (2-yr) to 7.3 bps (30-yr) lower, despite the equity rebound. Both the German (0.5%) and US (2%) 10-yr yield fell below key support levels.

On intra-EMU bond markets, 10-yr yield spreads versus Germany widened up to 4 bps for the semi-core. Peripheral spreads underperformed (Spain: +15 bps, Italy: +16 bps, Portugal: +23 bps, Greece: +105 bps). It's the first time this year that peripherals take a hit on risk aversion. The developing story about NPL's (Non-Performing Loans) in the Italian sector (under scrutiny by the ECB) might be one of the reasons. Portugal's central bank has offered to partly compensate Novo Banco bondholders who lost money when their securities were transferred to a "bad bank" last month in a bid to ease tensions with the government and furious international investors.

Can Draghi calm the markets?

Downside risks eco data, but Draghi and oil main features for trading.

Today, the focus will be on the ECB meeting (see below). After falling to its lowest level in 3 years, the Philly Fed manufacturing index is expected to show a limited rebound in January (from -10.2 to -5.9), but we see risks for a downward surprise. US initial jobless claims are forecast to have dropped slightly, with risks for a lower outcome. EC consumer confidence is expected to have stabilized (at -5.7), but we bet on a downward surprise



Brent oil price (orange) and German Bund (black): Perfect inverse correlation. Equities (not on graph) correlate with oil



S&P future (black): Testing key support area. Danger is far from over

French and Spanish supply

The French debt agency launches a new 3-yr OAT (0% Feb2019) and taps the on the run 5-yr OAT (0.25% Nov2020) & off-the-run 10-yr OAT (2.25% Oct2022) for a combined €7.5-8.5B. On the grey market, the new OAT trades with a 4.7 bps pick-up in ASW spread terms compared to the previous benchmark (0% Feb2018). The other OAT's both cheapened in the run-up to the auctions and especially the Nov2020 offers some value. We expect a plain vanilla auction. Additionally, the French Treasury raises €1-1.5B via inflation-linked bonds. The Spanish treasury auctions a new 3-yr Bono (0.25% Jan2019) and the on the run 15-yr Obligacion (1.95% Jul 2030) for a total amount of €4.5-5.5B. On the grey market, the new Bono trades with a 9.2 bps pick-up in ASW spread terms compared to the previous benchmark (0.25% Apr2018). The Jul2030 Obligacion trades expensive on the curve. Given last week's heavy Spanish issuance and recent turmoil on peripheral markets, we fear for a difficult auction.

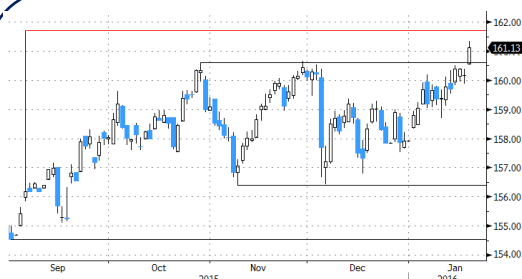
ECB Draghi expected to keep easing options open

R2	161,71	-1d
R1	161,34	
BUND	160,9	0,6600
S1	156,4	
S2	154,54	

Overnight, Asian equity markets tried to build on yesterday's comeback on WS, but the attempt failed miserably. Early gains are erased and main indices are up to 2% lower with Japan and China underperforming. The oil price slides again lower and remains near the cycle low. The US Note trades with an upward bias. Despite the deterioration in risk sentiment, we still expect a stronger opening for European stocks (catching up with WS development after closure) and a neutral one for the Bund.

Today's main item on the agenda is the ECB meeting. For a full preview, [see our FLASH REPORT](#). We expect no policy change, but think that Draghi will strike a dovish tone and keep the door for another deposit rate cut open. Such scenario seems discounted in European bond markets. Therefore, we think the market reaction might be muted. **However, given ongoing turmoil in markets, the message of Draghi is delicate. Bringing some comfort (confidence) for investors without promising what he cannot deliver (like he did in December). One wrong word may scare investors away from riskier assets. Risk sentiment and commodity markets remain the main drivers for trading and underpin bond markets since the start of the year.**

From a technical point of view, the US Note future entered overbought conditions, which could hamper short term gains. The Bund approaches final resistance (161.71). We hold our view that there is little value in the Bund/US Note future when 10-yr yields drop respectively below 0.50% and



German Bund: break above 160.66 resistance. Contract high: 161.71



US Note future: Dovish reaction on payrolls and Fed speak suggests that Asian/Chinese turmoil is key for markets at this stage.

Currencies

Dollar reached support levels against the euro and the yen, but no sustained break.

R2	1,106	-1d
R1	1,0985	
EUR/USD	1,0905	-0,0051
S1	1,0711	
S2	1,0524	

Asian equities again lower, while the dollar is still slightly in the defensive

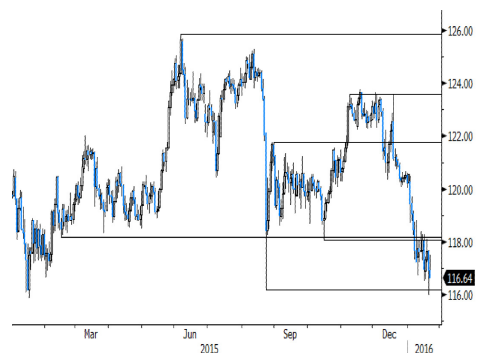
USD/JPY under pressure, but no break yet

On Wednesday, global equities turned again sharply lower. Early in the session, the dollar also felt the heat. However, key support levels held again under severe test. USD/JPY dropped briefly below the 116.18 August low, but rebounded. US equities regained most of the heavy intra-day losses late the session, helping the dollar off the intraday lows. USD/JPY closed the session at 116.94 (from 117.64 on Tuesday) EUR/USD ended session at 1.0890 from 1.0908. USD trading was again driven by global factors, as data were ignored.

This morning, sentiment on Asian markets remains fragile. The late session rebound in the US initially eased regional tensions, but Asian equities are again sliding lower as the session proceeds, as is oil that is still within reach of the recent lows. The PBOC took several measures to ease liquidity conditions on the domestic market and kept the USD/CNY fixing little changed. The off shore yuan trades marginally weaker at 6.6115. The pressure on the Hong Kong dollar eases slightly with USD/HKD currently at 7.8135. USD/JPY jumped well above 117 early in the session, but trades currently again at 116.80 as equities are again under pressure. EUR/USD holds close to the 1.09 pivot.



EUR/USD stays within the range even as sentiment on risk deteriorates



USD/JPY: key 116 area under test

Today, the focus will be on the ECB meeting. Data (**EMU Consumer confidence Philly Fed business outlook and the jobless claims**) are less important with risks to the downside of expectations. **If downside risks materialize, it might be slightly negative for the dollar.** The ECB press conference and the further developments in the global market crisis will remain the drivers for currency trading. Draghi will hold a soft tone, but after modest/disappointing easing at the December meeting, markets might be cautious to discount more easing than priced in. Even so, the message from the ECB president might be slightly negative for the euro. Looking at the price action in Asia, risk sentiment is still fragile, which is a negative for the dollar. **So, USD/JPY might go for a retest of the recent low in the 116 area. For EUR/USD, the 1.0985/1.10 area yesterday proved to be a tough resistance even as sentiment on risk was very negative. The pair feels some upward pressure, but we don't preposition for a break.**

From a technical point of view, EUR/USD failed to regain important resistances at 1.1087 (breakdown) and 1.1124 (62% retracement from the October high).

Thursday, 21 January 2016

US CPI and housing data might affect intraday USD trading, but global sentiment will be key.

Developments in Asia suggest red alert for core markets and, to a lesser extent, maybe also for the dollar.

R2	0,7875	-1d
R1	0,7756	
EUR/GBP	0,7684	-0,0057
S1	0,7555	
S2	0,7313	

Two weeks ago, EUR/USD failed also to sustain below 1.0796 support (07 Dec low). Next support is at 1.0650 (76% retracement off 1.0524/1.1060) and at 1.0524. On the upside, 1.0985/1.1004 (reaction top) is a first reference. This level was left intact even as sentiment was outright risk-off over the previous days. Next resistance comes in at 1.1060/1.1124 (15 Dec top/62% retracement). We expect this resistance to be strong and difficult to break. Even so, a test becomes more likely if global sentiment deteriorates further. **The picture for USD/JPY remains negative below 120.** The 116.18 August low was temporary broken yesterday, but no sustained break occurred. The bias remains to the downside.

Good labour report eases sterling tensions

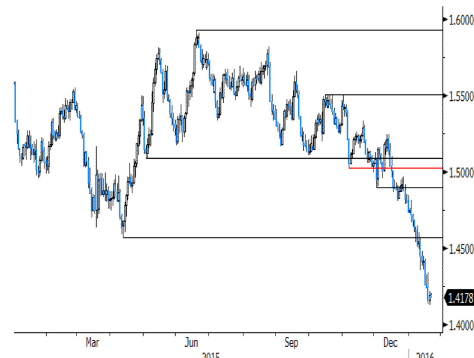
On Wednesday, the swings in sterling were rather modest, given the global negative investors sentiment and considering sterling's sell-off on Tuesday after a soft speech of BoE Carney. Sterling extended its decline in Asia and early in Europe. Cable set a now multi-year low at 1.4126. EUR/GBP filled offers in the 0.7755 area just before the publication of the UK labour data. The UK labour market report was good with the unemployed rate declining from 5.2% to 5.1% and with strong job growth (267 000 3M/3M). At the same time, wage growth was again modest 1.9% (3M avg Y/Y ex bonus). **The figure was marginally stronger than expected. However, this is clear not the domestic price push that Carney is looking for. Even so, EUR/GBP came off the intraday highs and closed the day at 0.7674.** Admittedly, this was partially due to the decline in EUR/USD. Cable hovered mostly sideways and closed at 1.4292 (from 1.4158).

This morning, the only UK eco release of the day, the RICS house price balance, was marginally stronger at 50% from 49%, in line with expectations. Sterling is drifting slightly weaker as sentiment on risk deteriorates in Asia. Yesterday, the performance of sterling wasn't that bad given poor global sentiment and the soft speech from BoE Carney on Tuesday. It will be interesting to see whether sterling becomes more resilient global negative sentiment continues. For now, we stay cautious on sterling and wait whether the recent lows against the euro and the dollar will hold.

In a longer term perspective, uncertainty on Brexit and global negative risk sentiment are important drivers for sterling weakness. As long as these issues aren't solved, a sustained sterling rebound is unlikely. **The medium term technical picture of sterling against the euro remains negative as EUR/GBP broke above the 0.7493 Oct top. Next resistance stands at 0.7875.** Sterling is in oversold territory against the euro and the dollar, but it is no reason to rush into sterling longs.



EUR/GBP: rally slows, at least temporary



Cable holding near multi-year low

Calendar

Thursday, 21 January		Consensus	Previous
US			
14:30	Philadelphia Fed Business Outlook (Jan)	-5.9	-10.2
14:30	Initial Jobless Claims	278k	284k
14:30	Continuing Claims	2250k	2263k
Japan			
05:30	All Industry Activity Index MoM (Nov)	A: -1.0%	1.0%
06:00	Supermarket Sales YoY (Dec)	A: 0.0%	-1.0%
UK			
01:01	RICS House Price Balance (Dec)	A: 50%	49%
EMU			
13:45	ECB Main Refinancing Rate	0.050%	0.050%
13:45	ECB Deposit Facility Rate	-0.300%	-0.300%
13:45	ECB Marginal Lending Facility	0.300%	0.300%
16:00	Consumer Confidence (Jan A)	-5.7	-5.7
France			
08:45	Business Survey Overall Demand (Jan)	--	5
08:45	Business Confidence (Jan)	102	101
08:45	Manufacturing Confidence (Jan)	103	103
08:45	Production Outlook Indicator (Jan)	--	0
08:45	Own-Company Production Outlook (Jan)	--	10
Belgium			
15:00	Consumer Confidence Index (Jan)	--	-3
Spain			
	Trade Balance (Nov)	--	-1888.2m
Events			
	Bank of NY (12:30), Verizon (13:00), American Express (aft mkt), Schlumberger (aft mkt) Announce Q4 Earnings		
	World Economic Forum in Davos		
14:30	ECB President Draghi Gives Post Meeting Press Conference		
Spain	Bond Auctions (€3.5-4.5 0.25% Jan2019 Bono & 1.95% Jul2030 Obligacion)		
France	OAT (€7.5-8.5B 0% Feb2019, 0.25%Nov2020, 2.25% Oct2022) & OATi (€1-1.5B 0.1% Mar2025, 0.7% Jul2030 OATei) Auctions		
US	10Yr TIPS auction (\$15B)		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,99	-0,01	US	0,83	-0,01	DOW	15767 15766,74
DE	0,49	-0,07	DE	-0,42	-0,02	NASDAQ	for Exch - NQI #VALUE!
BE	0,83	0,00	BE	-0,36	-0,01	NIKKEI	16017 16017,26
UK	1,62	-0,07	UK	0,40	-0,03	DAX	9391,64 9391,64
JP	0,23	0,01	JP	0,00	0,01	DJ euro-50	2883 2882,59

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	Eonia EUR	-0,238	0,001
3y	-0,036	1,040	0,958	Euribor-1	-0,22	Libor-1 USD	0,51	0,51
5y	0,181	1,329	1,206	Euribor-3	-0,14	Libor-3 USD	0,59	0,59
10y	0,803	1,833	1,630	Euribor-6	-0,06	Libor-6 USD	0,74	0,74

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0905 -0,0051	EUR/JPY	127,22 -0,58		159,4819	1102,6	27,69
USD/JPY	116,72 0,05	EUR/GBP	0,7684 -0,0057	-1d	-0,45	10,53	-0,49
GBP/USD	1,4184 0,0035	EUR/CHF	1,0936 -0,0017				
AUD/USD	0,6896 0,0043	EUR/SEK	9,3556 0,02				
USD/CAD	1,4512 -0,0124	EUR/NOK	9,6943 0,02				

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