



Sunrise

Friday, 11 December 2015

Rates: Countdown to Fed meeting

Today's eco calendar heats up in the US, but eco data will likely have only a temporary impact at best. Going into next week's FOMC meeting, we expect some underperformance of the front end of the yield curve anticipating a 25 bps rate hike. The ECB holds its sixth TLTRO, but the take-up will likely be low.

Currencies: Dollar made a "come-back", but it wasn't convincing

EUR/USD dropped lower, but more on euro weakness than on dollar strength. The dollar made no headway versus yen and sterling. Today, the US retail sales and a speech of Praet may be a distraction, with oil as a wildcard. Overall though, we go for sideways trading as investors remain cautious ahead of the FOMC next week.

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	↘

- Yesterday, **European equities** closed their third losing session in a row, with losses up to -0.7%. **US equities** held on to some profits, ending a 3-day losing streak as the S&P rose 0.23%. Overnight, **Asian equities** are trading weak as they are heading for a weekly loss.
- **Moody's has changed its outlook for Chinese banks to negative** as their operating environment and asset quality are weakening.
- **Cuba received a small vote of confidence from Moody's**, after the rating agency changed its outlook from stable to positive. However, the rating remains Caa2.
- **Oil prices have set a new cycle low** overnight, for **Brent Crude at 39.38\$/barrel** and **WTI Crude at 36.38\$/barrel**.
- Today, the eco-calendar is interesting with **the November US retail sales, PPI data** and the **December Michigan consumer sentiment**. **ECB's Praet speaks and will maybe explain what happened at the ECB meeting**.
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Rates

Countdown to Fed meeting started

Global core bonds end technically inspired session close to unchanged

Bunds outperform US Treasuries

Global core bonds ended mixed to slightly lower. US Treasuries underperformed German Bunds. Yesterday's trading session was technical in nature without clear driver. The countdown to the Fed meeting started, with the front end of the US yield curve slightly underperforming. Oil prices slid to minor new lows (Brent < \$39.50/barrel), but no longer supported core bonds. Equities eventually ended narrowly mixed in the US and Europe. The Dax initially tested first key support at 10 500, but rebounded. Eco data included disappointing weekly claims in the US, but didn't stir trading. The US \$13B 30-yr bond auction went smooth. At the end of the session, the German yield curve dropped up to 3.2 bps lower (10-yr), with the belly of the curve outperforming the wings. Changes on the US yield curve ranged between -0.6 bps (30-yr) and +3.5 bps (5-yr). On intra-EMU bond markets, 10-yr yield spread changes versus Germany ranged between -1 bp and +2 bps with Greece underperforming (+16 bps).

	US yield	-1d
2	0,9555	0,0244
5	1,6694	0,0214
10	2,227	0,0088
30	2,9635	-0,0087

	DE yield	-1d
2	-0,3290	-0,0090
5	-0,0778	-0,0173
10	0,5874	-0,0003
30	1,4131	0,0166

US retails sales main release of the week

Today, the eco-calendar is interesting with the November US retail sales, PPI data and the December Michigan consumer sentiment. The US retail sales for November are expected to have slightly improved from 0.1% M/M to 0.2% M/M. Sales ex cars and gasoline and the control group are also expected to have improved to 0.4% M/M from respectively 0.3% M/M and 0.2% M/M. We side with the market consensus. Producer prices (PPI) are expected to have remained quite negative at -1.4% Y/Y, while the core PPI should have one a tad higher to 0.2% Y/Y. The University of Michigan sentiment indicator for December is expected to improve to 92.0, coming from 91.3 previously. With a lot of negative confidence indicators lately, we see downward risks.



German Bund (black) and Brent oil price (orange): declining oil prices no longer supportive for Bund



German Dax (YTD) bounces of key support (10 500)

R2	161,71	-1d
R1	160,66	
BUND	158,53	-0,0400
S1	156,4	
S2	154,54	

Smooth 30-yr US Note auction

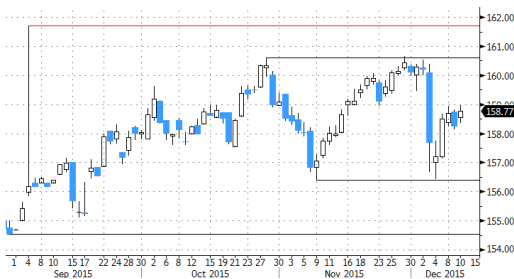
In the US, the Treasury concluded its mid-month refinancing operation with a smooth \$13B 13-yr Bond auction. The auction stopped about just right on top of the 1:00 PM bid side, but the bid cover was a little light (2.42). Bidding details were more or less in line with average but especially the indirect bid was aggressive.

Today: Countdown to Fed meeting

Overnight, risk sentiment on Asian equity markets is slightly negative with Japan outperforming on the back of a weaker yen. The US Note future trades modestly higher, suggesting some strength for the Bund in the opening as well.

Today, the eco calendar heats up in the US with retail sales, PPI data and Univ. of Michigan consumer sentiment. Ahead of Wednesday's FOMC meeting, we don't expect the eco data to have only a temporary impact on bond trading at best. Into that meeting, we expect the front end of the US yield curve to underperform, anticipating a 25 bps rate hike. Sentiment on commodity prices and risk sentiment on equity markets may cause some intraday gyrations, though the correlation with core bonds loosens as the week progresses. **We have a neutral bias for today's trading session. The ECB holds its sixth TLTRO.** In September, the take-up was only €15.55B. We don't expect much demand today either as the attractiveness of these loans had declined as funding conditions normalized and the 0.05% charged by the ECB is currently "expensive".

In Europe, the December ECB meeting took the angle out of the threat that the ECB will ease policy forever. In retrospect, it might turn out to be the end of the global rat race to have the easiest monetary policy. That puts a huge bottom below European rate markets (German 10-yr yield 0.42%; ceiling for the Bund 160.66). After last week's Bund sell-off, we believe that in first instance a new equilibrium needs to be found around the first support (March 2016 contract: 156.40). Weak commodity prices currently underpin the Bund though. In the US, the market implied probability of a December lift off, our base scenario, increased further to 78%. **We hold our sell-on-upticks approach for return action to the 125-01 recent low in the US Note future (2.37% resistance in US 10-yr yield).**



German Bund: Bounced off lower bound sideways range as oil price faced another setback



US Note future (March contract!!): more neutral as commodity complex falls off a cliff. Fed lift-off may still push contract to support

Currencies

Dollar give mixed indecisive picture with some gains against the euro, but status quo against the yen.

R2	1,1124	-1d
R1	1,1043	
EUR/USD	1,0945	-0,0047
S1	1,0524	
S2	1,0458	

Dollar slightly stronger overall, but unchanged against euro.

USD/JPY tries to recoup previous range

US retail sales, PPI and Michigan main releases

Downside risk Michigan consumer confidence

EUR/USD rebound aborted, but no convincing dollar

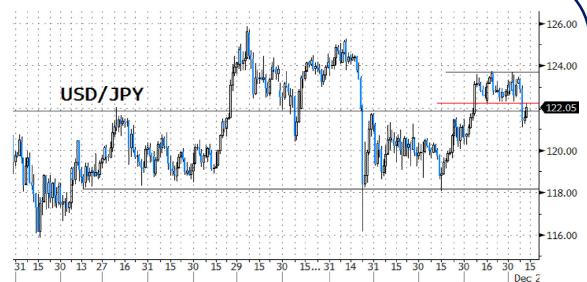
On Thursday, calm returned to the market in the absence of interesting economic data or event news. Commodities and equities moved sideways to higher (US equities). At the same time, the US dollar showed a mixed picture. EUR/USD reversed a substantial part of yesterday's impressive rebound. USD/JPY continued to struggle though after the break below the short-term range bottom (122.25) yesterday. USD traders are looking for a consistent story which isn't there right now, as moves are erratic and driven by pre FOMC positioning. Short-term interest rate differentials between Germany and the US (127 bps for the 2-yr) widened again. Even so, the decline of EUR/USD today looked more due to technical euro selling. The 'rebound' of USD/JPY was not at all convincing and evaporated soon. In a daily perspective, EUR/USD closed at 1.0942, a 83 ticks loss versus previous close, while USD/JPY was marginally up to 121.55 from 121.45 previously.

Overnight, Asian equities trade lower again, but losses are small to moderate. Japanese equities eke out some gains. **Overall, the dollar seems a tiny bit stronger this morning after a good rebound yesterday.** EUR/USD trades unchanged, but commodity currencies and USD/JPY strengthens and the latter changes hands currently at 122.10 from 121.51 yesterday eve. BOJ Kuroda said inflation will rebound to 2% next year once the effect of lower oil prices fades. However that's doubtful as the trade weighed yen is up quite substantial in past months. **So overall, we think that Asian trading doesn't give us clues for FX trading in Europe later on.**

Today, the US economic calendar is interesting with the November retail sales & PPI and the December Michigan consumer sentiment. The **US retail sales for November** are expected to have improved slightly, but we side with the market consensus. **Producer prices (PPI)** are expected to have remained quite negative at -1.4% Y/Y, while the core PPI should have gone a tad higher to 0.2% Y/Y. The **University of Michigan sentiment indicator for December** is expected to improve to 92.0, coming from 91.3 previously. We see downward risks for the data which is a dollar negative. **Even so, global market sentiment and investor repositioning ahead of the Fed meeting will prevail for FX trading.**



EUR/USD: Dollar regained ground yesterday, but we are not convinced. More euro weakness than dollar strength



USD/JPY (1-yr): tries to regain tight range at 122.25.

We think that dollar cautiousness is appropriate until the clouds disappear

This week, the reaction function of the dollar was not consistent at all. Initially, downside pressure on oil and nervousness on global equities weighed on the dollar. It dropped below important support against the euro and the yen on Wednesday. However, the dollar's 'behaviour' changed again yesterday and this morning. The US currency rebounded nicely even as equity sentiment remains fragile and as oil set news cycle lows. US/German 2-yr rate differentials (128 bp) moved again slightly in favour of the dollar. So, the dollar trades with a positive bias this morning. Yesterday's USD rebound gives some comfort for USD bulls. Still, we stay cautious to buy the dollar as risk sentiment remains fragile. In a longer term perspective, **the debate has shifted to the pace of further Fed tightening after next week's Fed meeting as the ECB is done for now.** It might still take some time (and good US eco data) for the dollar to regain further ground. However, **policy divergence has probably still to play a role**

Technical pictures dollar deteriorate

From a technical point of view, EUR/USD cleared earlier this week the 38% retracement from 1.1714 to 1.0524 standing at 1.0979, making the picture again neutral. We are currently again below that level, but it doesn't improve the picture. For that to occur, a **sustained decline below 1.08 is needed to improve the technical picture for the dollar.** On the upside, a previous range bottom/break down area comes in at 1.1087 (resistance1) and finally the 62% retracement from the October high at 1.1124 (resistance 2). If broken, it would make the picture dollar bearish and open the way to the 1.15 landmark. **However, after Wednesday's rather swift decline of the dollar, we want signs of stabilisation before reselling EUR/USD.** USD/JPY tries to recoup the bottom of previous bottom in the 122.25 area, which if confirms should make the picture again neutral.

BoE maintains a soft tone. So does sterling

R2	0,7298	-1d
R1	0,7279	
EUR/GBP	0,7226	-0,0014
S1	0,7164	
S2	0,6983	

Yesterday, sterling trading was driven by **two 'different stories'**. In the morning, it was driven by **the global markets' story**. Selling pressure in the dollar eased and cable settled in a tight range mostly slightly below 1.52. EUR/GBP dropped from the mid-0.72 area to the low 0.72 area as the euro returned part of yesterday's rally. The **BoE's policy decision temporarily changed the trading pattern.** The Bank as expected left its policy rate unchanged. At the margin, **the inflation assessment was slightly softer, but overall confirmed that inflation would remain subdued for some time to come.** The BoE minutes triggered a modest and temporary setback of sterling that was reversed later on. Cable closed little changed around 1.516, while EUR/GBP fell to 0.7212 from 0.7259 previously

Today, the UK calendar contains the October construction output and the BoE/GfK inflation expectations. We don't expect these to be of lasting importance, even if the inflation expectations are worthy looking at. **So, sterling crosses will be dominated by moves in the major FX pairs and the technicals. Euro weakness helped sterling becoming stronger yesterday, but after the steep losses of past sessions, that's not enough to become more positive on sterling.** We first want to see real sterling strength, it's unlikely that we'll get it today. **A sustained drop below 0.72 would be a positive, but we would remain cautious ahead of the FOMC meeting and probably also afterwards as trading will rapidly thin going towards year-end. Sterling is a tad weaker overnight. Technically, the pair is still in a broad sideways range with boundaries between 0.6938 and 0.7483.**

Calendar

Friday, 11 December		Consensus	Previous
US			
14:30	Retail Sales Advance MoM (Nov)	0.3%	0.1%
14:30	Retail Sales Ex Auto MoM (Nov)	0.3%	0.2%
14:30	Retail Sales Ex Auto and Gas (Nov)	0.4%	0.3%
14:30	Retail Sales Control Group (Nov)	0.4%	0.2%
14:30	PPI Final Demand MoM/YoY (Nov)	0.0%/-1.4%	-0.4%/-1.6%
14:30	PPI Ex Food and Energy MoM/YoY (Nov)	0.1%/0.2%	-0.3%/0.1%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Nov)	0.1%/0.4%	-0.1%/0.4%
16:00	Business Inventories (Oct)	0.1%	0.3%
16:00	U. of Mich. Sentiment (Dec P)	92.0	91.3
16:00	U. of Mich. Current Conditions (Dec P)	--	104.3
16:00	U. of Mich. Expectations (Dec P)	--	82.9
UK			
10:30	Construction Output SA MoM/YoY (Oct)	1.0%/-1.1%	-0.2%/-1.6%
10:30	BoE/GfK Inflation Next 12 Mths (Nov)	--	2.0%
Germany			
08:00	CPI EU Harmonized MoM/YoY (Nov F)	0.1%/0.3%	0.1%/0.3%
France			
08:45	Current Account Balance (Oct)	--	0.5b
Italy			
10:00	Industrial Production MoM (Oct)	0.3%	0.2%
10:00	Industrial Production WDA YoY/NSA YoY(Oct)	2.0%/--	1.7%/1.7%
12:00	Unemployment Rate Quarterly (3Q)	11.9%	12.4%
Spain			
09:00	House transactions YoY (Oct)	--	13.8%
Sweden			
09:30	Average House Prices (Nov)	--	2.480m
Events			
	EMU - ESM Sovereign Debt Rating Published by Fitch		
11:10	Italy - Auctions BTPs/CCTeus		
11:15	EMU - ECB Announces Allotment of TLTRO		
12:30	EMU - ECB Praet speaks today in London		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,23	0,01	US	0,96	0,02	DOW	17575 17574,75
DE	0,59	0,00	DE	-0,33	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,88	0,00	BE	-0,28	-0,01	NIKKEI	19230 19230,48
UK	1,88	0,01	UK	0,60	0,03	DAX	10598,93 10598,93
JP	0,32	0,01	JP	-0,02	0,00	DJ euro-50	3270 3269,97

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,232 0,003
3y	0,012	1,289	1,181	Euribor-1	-0,18	0,00	Libor-1 USD	0,50 0,50
5y	0,249	1,620	1,465	Euribor-3	-0,12	0,00	Libor-3 USD	0,58 0,58
10y	0,915	2,130	1,912	Euribor-6	-0,03	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0945	-0,0047	EUR/JPY	133,54	-0,14		177,5599	1069,75	39,52
USD/JPY	122,035	0,38	EUR/GBP	0,7226	-0,0014	-1d	0,00	-3,01	-1,04
GBP/USD	1,5138	-0,0037	EUR/CHF	1,0806	-0,0025				
AUD/USD	0,7254	-0,0029	EUR/SEK	9,315	0,05				
USD/CAD	1,3637	0,0081	EUR/NOK	9,4731	-0,06				

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