



Sunrise

Monday, 16 November 2015

Rates: Core bonds remain well supported amid carnage in commodities and equities

On Friday, core bonds continued last week's strong run. Technical pictures improved again. Today, there may be some positive reaction of bonds on the terrorist act in France over the weekend. The eco calendar is thin, but a number of ECB speakers may surprise.

Currencies: dollar shows mixed picture as risk-off sentiment dominates

On Friday and this morning, global sentiment on risk turned further negative. This is weighing slightly on USD/JPY. EUR/USD remains within reach of the recent lows. We expect the established pattern to continue today. EUR/GBP is testing intermediate support at 0.7026.

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 session in the red for the fourth time last week, showing losses up to -1.4%. **US equities were down too** (S&P fell another -1.1%). Overnight, **Asian equities** are weak, but not more than WS on Friday.
- **This weekend the IMF staff has recommended that China's renminbi joins the elite SDR currency basket**, as IMF MD Christine Lagarde said that the renminbi met the fund's two main criteria of being widely used and being freely useable.
- **The Japanese economy grew slower than expected and remains in recession. GDP shrank -0.8% Q/Q annualized in Q3**, coming from an upwardly revised -0.7% Q/Q annualized in Q2. The GDP deflators were stronger though.
- **Moody's raised Cyprus' credit rating from B3 to B1**, as the country shows a faster than expected economic recovery.
- **The Thai economy grew better than expected, with the GDP expanding 2.9% Y/Y in Q3**, as economists expected a growth of 2.5% Y/Y.
- Today the **eco calendar** is thin with only **the US Empire Manufacturing survey** and **the EMU CPI**. More interesting to watch are speeches of **ECB's Constancio, Draghi and Coeure speaking**.

Rates

Core bonds continue to gain ground

Technical pictures improve

Various triggers: upcoming ECB easing, dropping commodities and declining equities amid mixed US data

	US yield	-1d
2	0,8307	-0,0525
5	1,6288	-0,0929
10	2,2447	-0,0704
30	3,0335	-0,0394

	DE yield	-1d
2	-0,3744	-0,0265
5	-0,1147	-0,0434
10	0,5446	-0,0662
30	1,4207	-0,0418

Upside risks NY manufacturing

Speeches Draghi, Coeure and Constancio

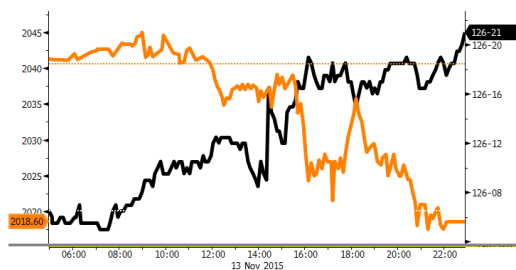
Core bonds well supported, despite lift-off expectations

On Friday, global core bonds continued last week's strong run following the steep drop after the stellar US payrolls. The Bund is now even higher than before the payrolls. The technical picture improved with the Bund back in the upward trend channel. US Treasuries haven't yet erased losses, but also here the technical picture improved (see below). The expected easing by the ECB supports Bunds and triggers outperformance versus US Treasuries.

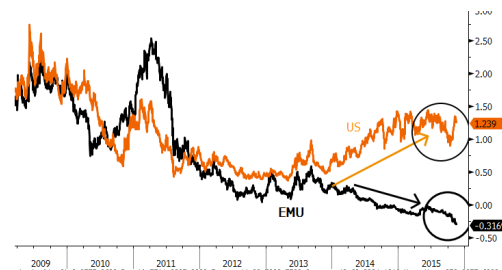
The strong end of the US refunding operation was a positive early on Friday. Weaker EMU GDP and weaker US retail sales didn't play a major role. Weaker commodity prices, declining equities and the upcoming weekend left Bunds and US Treasuries near the highs in the close. In a daily perspective, the US yield curve shifted lower with the belly outperforming and yields down between 3.6 bps and 6.1 bps. The German curve bull flattened with yields 1.5 bps (2-yr new low) to 5 bps (10-yr) lower. On intra-EMU bond markets, 10-yr yield spreads versus Germany were virtually unchanged with the exception of an outperformance of Greece (-6 bps).

More ECB speakers, thin eco calendar

The NY Empire State manufacturing survey is expected to rise from -11.36 in October, to -5.50 in October. We see some upside risks to consensus. In the euro zone, the final reading of the October CPI will be published. No noticeable changes versus the preliminary reading are expected (0% Y/Y for headline, 1% Y/Y for the core). Constancio, Draghi and Coeuré, three Executive ECB Board members, speak. Last week, several of them (including Draghi) sounded already very soft, preparing the markets for further easing. It is probably still too early to get more concrete hints about the specific tools and modalities of the policy easing. However, one never knows. We go for a 10 bps decline in the deposit rate, a €20B rise in the monthly purchase rate plus and an extension of the programme into 2017, subject of course to further ECB suggestions.



T-Note future (black) & S&P future (orange): Core bonds remain well supported



Eonia 1yr/1yr forward (and US OIS): -0.31% suggests that a drop of at least 10 bps is discounted

R2	160,62	-1d
R1	158,6	
BUND	157,19	0,8400
S1	156,44	
S2	154,81	

EMU supply calendar rather thin

This week's EMU bond supply comes from Germany, Spain and France. On Wednesday, the German Finanzagentur launches a new 2-yr Schatz (€5B 0% Dec2017). On Thursday, the French Treasury sells the on the run 5-yr OAT (0.25% Nov2020) and two off the run OAT's (4.25% Oct2018 & 2.25% Oct2022) for a combined €7-8B. Additionally, they'll try to raise €1-1.5B with inflation-linked bonds. The Spanish debt agency sells the on the run 3-yr Bono (0.25% Apr2018), the on the run 5-yr Bono (1.15% Jul2020) and the off the run Obligacion (5.4% Jan2023). The auctions won't be supported by bond redemptions.

Today: Positive bias in risk-off session?

Overnight, Japan fell back in recession following a disappointing negative Q3 GDP print. Losses on Asian stock markets are around 1%, in line with US weakness on Friday. The attacks in Paris are negative for risk sentiment, but didn't trigger panic selling. The **US Note future** opened higher this morning, suggesting a strong opening for the Bund as well.

Today's eco calendar contains final EMU CPI data and US Empire Manufacturing. We don't think that these data will be influential for trading. A further downward correction on equity markets is a positive for core bonds. Commodity prices bear monitoring as well. On Friday, the CRB commodity index and the Brent oil price both tested the cycle lows. A break below these levels is also supportive for core bonds. **So all in all, we have a slightly positive bias for today's trading 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). Short term, there could be room for further consolidation, but **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/or 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

Risk-off sentiment has only modest negative impact on USD

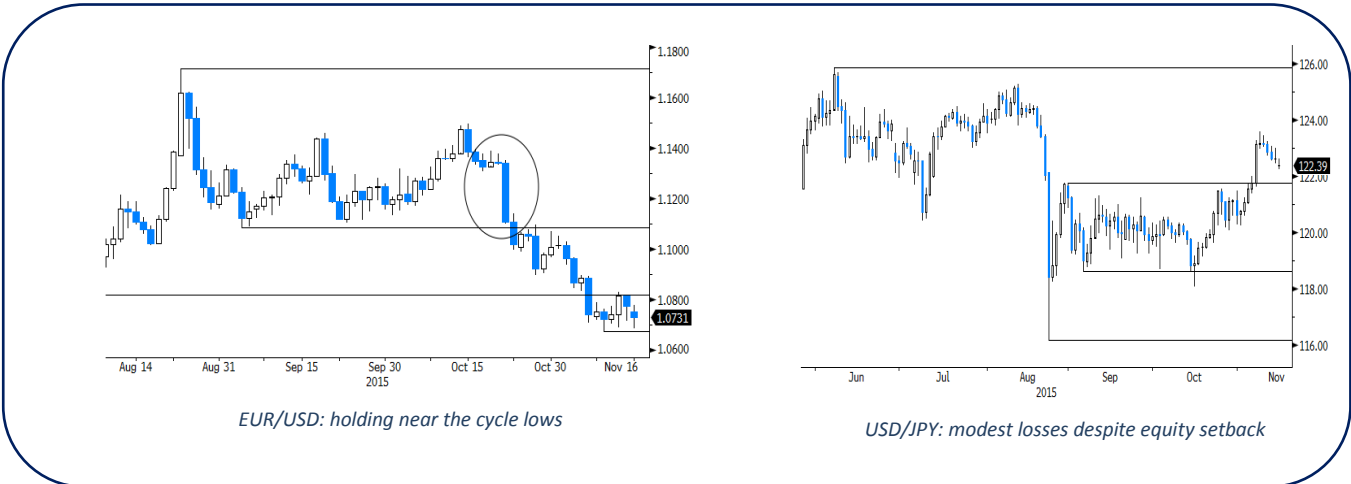
R2	1,1072	-1d
R1	1,0809	
EUR/USD	1,0738	-0,0051
S1	1,0675	
S2	1,0521	

Asian markets join the risk-off correction. Losses of the dollar remain moderate.

Dollar losses stay modest as sentiment remains risk-off

On Friday, the data were mixed, mostly slightly weaker than expected. EMU Q3 growth was reported at 0.3% Q/Q (0.4% expected). US retail sales and PPI also missed expectations. Equities in Europe and in the US were under pressure but the impact on the dollar was not that straightforward. Markets apparently concluded that the data won't change the assessment of the ECB and the Fed. EUR/USD closed the session at 1.0773 from 1.0814. USD/JPY ended the day at 122.61, unchanged from the previous day.

Overnight, Asian equities trade mostly with moderate losses. The attacks in Paris maybe caused some additional investor caution. However, **the price action is probably in the first place due to a poor risk sentiment in the US on Friday.** This morning, the Japan Q3 GDP was reported at -0.2% Q/Q, slightly weaker than the consensus of only a 0.1% contraction. Investments and inventories were to blame. The report technically brings Japan in a recession as Q2 growth was also negative (-0.2% Q/Q). The direct impact of the GDP data on markets is limited. Losses of Japanese equities are even slightly lower than in the rest of the region. **At the same time, the yen strengthened slightly due to the global risk-off sentiment and may also due to the Paris attacks. USD/JPY is changing hands in the 122.40 area.** EUR/USD dropped briefly below 1.07 this morning, but trades currently again in the 1.0725 area. On Friday, the staff of the IMF concluded that the yuan met the criteria of being freely usable and being widely used for international transactions. The statement was openly endorsed by IMF Chief Christine Lagarde. The assessment opens the way for the Yuan to be included in the IMF SDR basket as a reserve currency.



EUR/USD: holding near the cycle lows

USD/JPY: modest losses despite equity setback

Eco calendar is thin today.

Picture for the dollar remains a bit mixed.

Later today, the eco calendar is thin. In Europe, final EMU CPI will be published. A slight downward revision for the headline figure is expected (consensus at 0.1% M/M and 0.0% Q.Q). Core inflation is expected stable at 1.0%. A lower figure might be a slightly negative for the euro. In the US, the Empire manufacturing index is expected to improve from -6.35 to -11.36. Several ECB members will speak again today. We expect the impact to be limited and short-lived.

Of late, an outright risk-off sentiment was mostly a negative for the dollar, but the negative impact on the US currency was often moderate and not really consistent. In a day-to-day perspective, we expect the risk-off sentiment to weight slightly on USD/JPY. The picture for EUR/USD is less clear. We assume that the topside of the pair remains tough. A continuation of the gradual downtrend is likely.

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.

Short term some consolidation on the USD rally is likely

R2	0,725	-1d
R1	0,7197	
EUR/GBP	0,7052	-0,0034
S1	0,7023	
S2	0,6936	

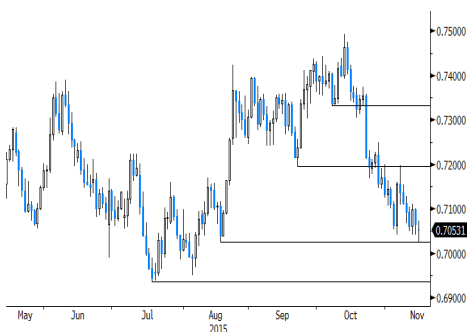
In a broader perspective, short term interest rate differentials widened in favour of the dollar. EUR/USD dropped below the 1.0809 support and reached the targets of the multiple top formation (neckline 1.1087/1.1105) in the low 1.0715 rea. With policy divergence between the Fed and the ECB still in 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 came on the radar, but a test break looks difficult short-term.

EUR/GBP testing the 0.7026 support

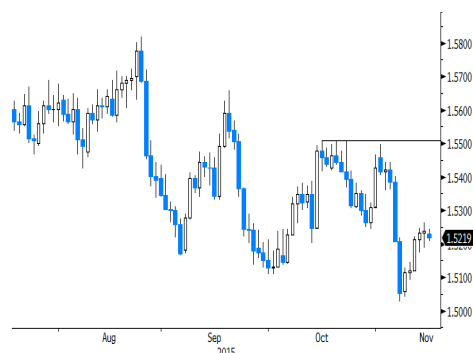
On Friday, there were only second tier UK eco data. September construction output was below consensus, but had no impact on trading. Cable hovered sideways in the lower 1.52 area during the European morning session.. The pair spiked briefly higher after the mid-morning US data (temporary weakness), but the move was soon reversed. EUR/GBP to a large extent tracked again the price pattern of EUR/USD. EUR/GBP closed the session at 0.7066 (from 0.7099 on Thursday).

This morning, the UK November **Rightmove House prices** declined 1.3% M/M to be up 6.2% Y/Y. The report had no big impact on Sterling trading. However, global euro weakness at the start of the session also pushed EUR/GBP for a test of the 0.7026 area. Later today, there are no important UK eco data. Global dollar sentiment will remain the key driver for sterling trading. Risk-off sentiment might be a slightly negative for the dollar, but the downside of the US currency against the euro and sterling will probably be limited. **We expect EUR/GBP to hold close to the recent lows.**

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: testing the 0.7026 support



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

Calendar

Monday, 16 November		Consensus	Previous
US			
14:30	Empire Manufacturing (Nov)	-6.35	-11.36
Canada			
14:30	Manufacturing Sales MoM (Sep)	--	-0.2%
15:00	Existing Home Sales MoM (Oct)	--	-2.1%
Japan			
00:50	GDP SA QoQ (3Q P)	A: -0.2%	-0.3%
00:50	GDP Annualized SA QoQ (3Q P)	A: -0.8%	-1.2%
00:50	GDP Nominal SA QoQ (3Q P)	A: 0.0%	0.1%
00:50	GDP Deflator YoY (3Q P)	A: 2.0%	1.5%
00:50	GDP Private Consumption QoQ (3Q P)	A: 0.5%	-0.7%
00:50	GDP Business Spending QoQ (3Q P)	A:-1.3%	-0.9%
UK			
01:01	Rightmove House Prices MoM/YoY (Nov)	A: -1.3%/6.2%	0.6%/5.6%
EMU			
11:00	CPI MoM/YoY (Oct)	0.1%/0.0%	0.2%/0.0%
11:00	CPI Core YoY (Oct F)	1.0%	1.0%
Belgium			
15:00	Trade Balance (Sep)	--	-568.4m
Norway			
10:00	Trade Balance NOK (Oct)	--	15.5b
Events			
09:30	EMU - ECB's Vitor Constancio Speaks at Euro Finance Week		
11:15	EMU - ECB President Draghi Speaks in Madrid		
15:45	EMU - ECB publishes weekly QE details		
17:00	EMU - ECB Executive Board Member Coeure Speaks in Paris		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,24	-0,07	US	0,83	-0,05	DOW	17245 17245,24
DE	0,54	-0,07	DE	-0,37	-0,03	NASDAQ	for Exch - NQJ #VALUE!
BE	0,83	-0,06	BE	-0,31	-0,02	NIKKEI	19394 19393,69
UK	1,98	-0,03	UK	0,66	-0,02	DAX	10708,4 10708,40
JP	0,31	0,00	JP	0,00	0,00	DJ euro-50	3361 3360,65

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,132 0,006
3y	-0,017	1,177	1,196	Euribor-1	-0,14	0,00	Libor-1 USD	0,51 0,51
5y	0,220	1,563	1,521	Euribor-3	-0,08	0,00	Libor-3 USD	0,58 0,58
10y	0,897	2,132	1,953	Euribor-6	-0,01	-0,01	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0738	-0,0051	EUR/JPY	131,44	-0,86		184,7668	1097,6	44,82
USD/JPY	122,41	-0,25	EUR/GBP	0,7052	-0,0034	-1d	-1,66	14,72	0,60
GBP/USD	1,5225	0,0009	EUR/CHF	1,0799	-0,0007				
AUD/USD	0,7117	-0,0010	EUR/SEK	9,3315	0,01				
USD/CAD	1,3301	0,0013	EUR/NOK	9,3357	-0,03				

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