



Sunrise

Tuesday, 24 November 2015

Rates: Bonds part ways

The Bund fell prey to a sharp correction yesterday, but US Treasuries went the other side, softening the blow for Bunds. Today, Asia gives little clues for trading. Technical trade may prevail, even as upside eco data risks are a danger for core bonds. Stalemate in Portuguese politics grabs our attention too.

Currencies: Trade-weighted dollar nears cycle top

The dollar remains strong, especially against the euro even as EMU eco data are strong and as ECB Lautenschlaeger questions the need for further ECB easing. Today's US eco data are expected to be constructive. Will the rise of the dollar continue or is it finally time for a pause ahead of ECB and Fed policy decisions?

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 off with modest losses as they tried to recover from a weak open. **US equities** ended the sessions slightly in the red, with the S&P losing -0.12%. Overnight, **Asian equities** are trading mixed as commodities remain under downward pressure.
- **The final reading of the German GDP data remained stable as expected, with the economy growing 0.3% Q/Q and 1.8% Y/Y.**
- **ECB executive board member Sabine Lautenschlaeger spoke out directly against president Mario Draghi, criticizing further stimulus in the December meeting.** She said that the recent economic data have been positive and don't show a need for further stimulus.
- **Federal Reserve Chair Janet Yellen responded to a letter of savers** calling for higher interest rates, that **they would've been worse off with an overly aggressive policy** and she repeated that they **will raise gradually after a lift-off.**
- **The current Portuguese president Silva has set terms for socialist Costa to become Premier**, insisting on **guarantees** that a new government will **comply with EU rules and ensures financial stability.**
- **The Japanese manufacturing showed sharpest growth in production since March 2014**, as the manufacturing PMI rose from 52.4 to 52.8.
- Today the **eco-calendar** contains the **the Q3 US GDP** revision and the November **Consumer Confidence index**. In the Eurozone, there are **the German IFO business climate indicators** for November. Also, **BoE's Carney & Haldane are testifying to the U.K. Treasury Committee today.**

Rates

	US yield	-1d
2	0,9422	0,0209
5	1,6799	-0,0114
10	2,2447	-0,0193
30	2,9984	-0,0239

	DE yield	-1d
2	-0,3890	-0,0030
5	-0,1479	0,0021
10	0,5181	0,0378
30	1,3098	0,0321

Bund hit by profit taking on strong PMI and oil jump

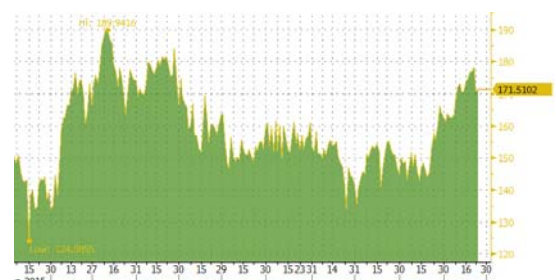
Yesterday, global core bonds started the week on a weak footing, especially German Bunds. After a 10 day winning streak, some profit taking wasn't surprising. Strong(er) EMU business confidence, a (more temporarily) spike in oil prices and an overbought position played a role in the long slide lower. Also the test of the lows in the German 2s and 5s and the drop of the 10-yr yield below 0.50% on Friday were good reasons to build back some long exposure. Similarly, since October 21, the US-German 10-yr yield spread blew out to 178 bps from 145bps. **In a daily perspective, the German yield curve bear steepened with yields changes ranging between -0.3 bps (2-yr) and 5.7 bps (30-yr). US Treasuries slid more slowly than the Bund and spiked higher later on, also helped by a decent 2-yr Note auction. The Bund regained some extra ground after the European official closure.** US yields ended to 2 bps lower. **On intra-EMU bond markets**, 10-yr yield spread changes versus Germany ranged between -3.4 bps (Spain) and flat (Portugal) with Greece underperforming (+22 bps). The **Portuguese president Silva asked Costa for guarantees before eventually accepting a minority government.**

Interesting US and German eco calendars

The US Q3 GDP data is expected to be revised upward to an annualized 2.1% (Q/Qa) from the advance estimate of 1.5% (Q/Qa). We expect the majority of the revision to come from inventories which would subtract about 0.9%-point of GDP instead of the 1.44%-point advance estimate, a result of recently newly released stats. We side with the consensus. **If the upward revision is indeed due to inventories it won't have much impact.** Inventories are a swing factor in GDP calculations. Other categories should show only small revisions. The **US consumer confidence index (Conference Board)** is expected to have increased to 99.5 in November from 97.6 previously. **We see upward risks to consensus**, as the Michigan measure of confidence improved and as the US payrolls were very strong. Labour market conditions impact the Conference Board measure of confidence more than the Michigan one. The EMU eco-calendar contains the **German IFO Business climate** indicator which is expected to remain stable at 108.2 in November. **Given the increase in yesterday's published PMI's, we see risks to the upside of expectations**, even if both indicators not always move together.



Bund future (black) & Dax (orange): Sharp profit taking in the Bund, partly undone after European trading on Treasury strength.



10-yr US-German spread corrects lower following a 25 bps widening in the past month.

R2	160,62	-1d
R1	158,6	
BUND	157,61	-0,3500
S1	156,85	
S2	154,81	

Finland & Netherlands tap the 2025 sector

In the US, the Treasury successfully issued a \$26B 2-yr T-Note. The auction stopped well through the WI at the stop. The bid/cover was still low at 3.15 (average 3.35). The auction yield was the highest yield since April 2010. Today, the US Treasuries issues a \$35B 5-year Note. It trades currently at 1.68%. **The Netherlands and Finland tap the 2025 sector. The Netherlands sells up to €2B of its 0.25% July 2025 DSL bonds.** The Dutch rating is AAA at all three agencies, with an upgrade last Friday by S&P. The auction shouldn't pose problems. The bond trades about 12 bps below ASW (at a nominal 0.68%). **Finland sells up to €1B of its 0.875% September 2025 benchmark. It trades at 0.777% or about 4 bps below ASW. It has a AAA rating with Moody's and Fitch and a AA+ at S&P.**

Today: Indecisive trading?

Overnight, Asian equities trade mixed to slightly higher. The T-Note is about flat. Overnight, in a letter to savers, **Yellen** defended the zero policy of the past years and added that the Fed will tighten policy **only gradually after the lift-off**. She was cautious in her other remarks.

Today, the eco calendar is interesting with US consumer confidence and German IFO, both with some upwards risks to consensus. No signs of a **Fed discount rate hike, probably refused by the Board of governors**. We saw yesterday that Bund investors were prone for some profit taking, but US investors weren't ready to join and even kept the Note future above key 126-16 support. Even as the data might be bond-negative, we think that investors aren't ready for directional moves. So, we stick to the expectation that **trading may be primarily technically inspired**. The upside in the Bund should be protected, while the downside in Treasuries should be difficult.

Technically, the Bund hadn't registered one day of losses in the past ten sessions, but that changed yesterday. So, while the fundamentals and technicals remain bullish, we stay cautious and still consider some lightening of long positions especially if we would test the highs (Bund). We see, as before, little value when German 10-yr yield is below 0.50%.

The T-Note future tested key 126-16 support, but no sustained break occurred. The bears probably won't go immediately for another test.. Therefore, we hold our sell-on-upticks for US Treasuries or even lightening long positions straight away.



German Bund: correction suggests that upside may have become limited



US Note future: indecisiveness around 126-16 support.

Currencies

R2	1,083	-1d
R1	1,0763	
EUR/USD	1,0627	0,0002
S1	1,0521	
S2	1,0458	

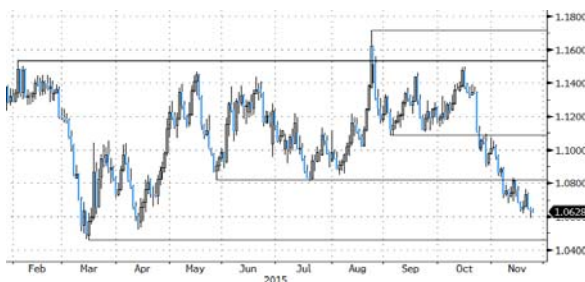
EUR/USD sets another minor new correction low

Dollar slightly off the recent highs as Asian equities show no clear trend

Trade-weighted nearing cycle top

On Monday, the dollar remained strong and the euro stayed in the defensive, even as the EMU PMI's were fairly strong. Oil rebounded and supported temporary the likes of the Norwegian Crown and the Canadian dollar, but the impact on the US currency was limited. EUR/USD even touched a minor new low just below 1.06. The pair closed the session at 1.0636, only marginally lower compared to Friday's close of 1.0646. USD/JPY end the session little changed at 122.84 from 122.81.

Overnight, Asian equities show no clear trend as US markets reversed opening gains and closed almost unchanged. Commodity stocks remain under pressure as industrial commodities stay close to the recent lows. AUD/USD stabilizes close to the 0.72 level. **Yellen in a letter to savers repeated that any Fed tightening after the lift-off would be very gradual.** However, this is not really big news for markets. Yesterday evening, **ECB's Lautenschlaeger** did break ranks with the mainstream ECB talk as she said that there is currently no need for further easing as the European economy has shown resilient against global uncertainty. EUR/USD trades currently in the 1.0625 area. USD/JPY returned below the 123 barrier and is changing hands in the 122.70 area.



EUR/USD touches yet another short-term low .



DXY (USD trade-weighted): nearing the cycle top

German Ifo and US data in focus

We continue to keep an eye at short-term interest rate differentials as a driver for USD trading

Today we look out for the German **Ifo business climate**. The headline IFO figure is expected unchanged at 108.2. Will yesterday's strong PMI be confirmed? The Lautenschlaeger comments suggest a (small) rift in the ECB on the need for further easing. However, we don't expect the market to change its assessment on further substantial ECB easing, even in case of strong EMU data. In the US, Consumer confidence is expected to improve from 97,6 to 99,5. We see upward risks for this indicator. The Richmond Fed manufacturing index is also expected to improve. So, the odds don't look that bad for the dollar today. **Of late, the intentions of the ECB and the Fed were clearly indicated by several central bank officials. Still currency markets continued to play the divergence trade.** At the current levels, a lot of good news should already be discounted for the dollar. **The trade-weighted dollar is coming close to the cycle highs reached earlier this year.** At the same time, anticipation on aggressive ECB easing continues to weigh on the euro. We keep a close eye at the short-term interest rate differentials (2-yr) between the US and Germany. They maintained an albeit gradual uptrend. If the widening halts, the decline of EUR/USD might slow. **A**

slowdown/ST consolidation of the USD rally still looks likely in the run-up to the ECB and Fed policy meetings as markets have already discounted quite some Fed tightening/ECB easing. Even so, we expect any USD correction to remain limited/short-lived.

From a technical point of view, EUR/USD dropped below the 1.0809 support and reached the targets of the short-term multiple top formation in the low 1.0715 area. With policy divergence between the Fed and the ECB still in place, we don't row against the EUR/USD downtrend, but 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.

Sterling slightly in the defensive before BoE hearing

R2	0,725	-1d
R1	0,71971	
EUR/GBP	0,7022	0,0022
S1	0,6982	
S2	0,6936	

On Monday, there were no important data in the UK. Cable traded with a negative bias and slightly underperformed EUR/USD. The test of EUR/GBP below 0.70 was again rejected. Sterling investors perhaps took a cautious approach ahead of today's BoE hearing before a Treasury committee as they expect BoE's Carney to stay muted on the timing of a rate hike. Whatever the reason, sterling traded slightly weaker against the euro and the dollar. EUR/GBP closed the day at 0.7033 vs 0.7009 on Friday. Cable ended the session at 1.5124 from 1.5191.

Today, the CBI reported sales are expected to improve from 19 to 25. After volatile official retail sales figures of late, a number in line with the consensus would indicate that UK sales are doing OK. However, we don't expect a big reaction to this report. The focus for sterling trading will be on a hearing of the BoE on the November inflation report before a Treasury Committee. The inflation report was soft as the BoE expected inflation to stay low for longer.

However, last week, BoE Broadbent indicated that UK market yield curves were very flat and that expectations on the timing of a BoE rate hike could change due to incoming data. We expect Carney to maintain the line that the BoE has time to watch the data. It shouldn't be in a hurry to raise rates as inflation remains very low. The prospect of more ECB easing and its negative impact on the euro is also a good reason for the BoE to stay in wait-and-see modus. The BoE hearing might be slightly negative for sterling in a daily perspective. However, market expectations for a first BoE rate hike are already very low. So, we don't expect a sustained decline of sterling against the euro. Sterling might stay weak against the dollar. The correction low at 1.5027 comes within reach.

Looking at the broader picture, the soft ECB stance pushed EUR/GBP lower in the longstanding sideways range. The pair cleared the 0.7196 support after the October FOMC meeting. A retest occurred after a soft BoE inflation report, but the test was rejected. We maintain a sell-on-upticks approach for EUR/GBP as euro weakness prevails. Next key support is this year's low at 0.6936.



EUR/GBP: awaiting the BoE hearing



Cable: nearing the 1.5027 correction low

Calendar

Tuesday, 24 November		Consensus	Previous
US			
14:30	GDP Annualized QoQ (3Q S)	2.1%	1.5%
14:30	Personal Consumption (3Q S)	3.2%	3.2%
14:30	GDP Price Index (3Q S)	1.2%	1.2%
14:30	Core PCE QoQ (3Q S)	1.3%	1.3%
15:00	S&P/CS 20 City MoM SA (Sep)	0.30%	0.11%
16:00	Consumer Confidence Index (Nov)	99.5	97.6
16:00	Richmond Fed Manufact. Index (Nov)	1	-1
Japan			
02:35	Nikkei Japan PMI Mfg (Nov P)	A: 52.8	52.4
06:00	Supermarket Sales YoY (Oct)	A: 2.8%	2.9%
UK			
12:00	CBI Reported Sales (Nov)	25	19
Germany			
08:00	GDP SA QoQ/WDA YoY (3Q F)	0.3%/1.7%	0.3%/1.7%
08:00	GDP NSA YoY (3Q F)	1.8%	1.8%
08:00	Private Consumption QoQ (3Q)	0.5%	0.2%
08:00	Government Spending QoQ (3Q)	0.4%	0.3%
08:00	Capital Investment QoQ (3Q)	0.0%	-0.4%
08:00	Construction Investment QoQ (3Q)	0.1%	-1.2%
08:00	Domestic Demand QoQ (3Q)	0.7%	-0.3%
08:00	Exports QoQ (3Q)	0.4%	2.2%
08:00	Imports QoQ (3Q)	1.0%	0.8%
10:00	IFO Business Climate (Nov)	108.2	108.2
10:00	IFO Current Assessment (Nov)	112.4	112.6
10:00	IFO Expectations (Nov)	104.0	103.8
France			
		Consensus	Previous
08:45	Business Confidence (Nov)	101	101
08:45	Manufacturing Confidence (Nov)	102	103
08:45	Production Outlook Indicator (Nov)	--	2
08:45	Own-Company Production Outlook (Nov)	--	13
Italy			
10:00	Hourly Wages MoM/YoY (Oct)	--/--	0.0%/1.2%
Belgium			
15:00	Business Confidence (Nov)	-4.3	-4.0
Norway			
06:30	Consumer Confidence (4Q)	A: -	-4.1
Events			
09:30	ECB's Costa Speaks at Conference on Portuguese Exporters		
10:30	ECB's Nouy, Bol's Panetta Speak at Milan Event		
11:00	BOE's Carney, Haldane testify to UK Treasury Committee		
11:00	Holland – Eur 1.0-2.0bn 0.25% Jul 2025 DSL		
	Finland – Eur 1.0bn 0.875% Sep 2025 RFGB		
11:20	Australia – RBA's Debelle speech in London		
14:00	ECB Mersch speaks in Frankfurt		
19:00	US – USD 13bn 2-yr FRN auction & USD 35bn 5-yr Note auction		

10-year	td	- 1d	2-year	td	- 1d	STOCKS	- 1d
US	2,24	-0,02	US	0,94	0,02	DOW	17793 17792,68
DE	0,52	0,04	DE	-0,39	0,00	NASDAQ or Exch - NQI	#VALUE!
BE	0,83	0,04	BE	-0,30	0,01	NIKKEI	19925 19924,89
UK	1,87	-0,01	UK	0,59	-0,02	DAX	11092,31 11092,31
JP	0,32	0,00	JP	0,00	0,01	DJ euro-50	3445 3445,26

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,138 -0,005
3y	-0,075	1,227	1,139	Euribor-1	-0,15	0,00	Libor-1 USD	0,51 0,51
5y	0,164	1,562	1,417	Euribor-3	-0,10	0,00	Libor-3 USD	0,57 0,57
10y	0,835	2,087	1,814	Euribor-6	-0,02	-0,01	Libor-6 USD	0,73 0,73

Currencies	- 1d	Currencies	- 1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0627 0,0002	EUR/JPY	130,4 -0,39		183,7335	1071,2	45,05
USD/JPY	122,72 -0,44	EUR/GBP	0,7022 0,0022	- 1d	-0,38	1,14	1,28
GBP/USD	1,5132 -0,0041	EUR/CHF	1,0822 -0,0014				
AUD/USD	0,7200 0,0022	EUR/SEK	9,2671 0,00				
USD/CAD	1,3344 -0,0042	EUR/NOK	9,1949 0,01				

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