



## Sunrise

Friday, 27 November 2015

### Rates: Bund stabilizes just below highs

Dull sideways trading in European bond markets as US markets remained closed for Thanksgiving. Today, US markets will stay ultra-thin (Black Friday) and as also the EMU calendar is unattractive, technical trading may dominate unless the carnage in Chinese equity markets spreads to Europe. Bund high stands at 158.60.

### Currencies: Risk-off is a slightly negative for the USD and sterling today

Yesterday, trading in EUR/USD and USD/JPY was confined to tight ranges as US markets were closed. This morning, sentiment on risk turned negative in China. If this sentiment would spill over the European or the US markets, it might be a slightly negative for the dollar and sterling.

### 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 the session with nice profits and build a nice two-day winning streak. **US equity markets were closed**. Overnight, **Asian equities** showing red figures, with China taking a full nose-dive (-5%+)
- Japanese inflation dreams might be coming true, as **the headline inflation rose 0.3% Y/Y (vs 0.2% Y/Y expected)**, **The core inflation** was less rosy, **remaining at the expected -0.1% Y/Y**. The “Core-Core”-inflation even declined from 0.9% Y/Y to 0.7% Y/Y, whereas 0.8% Y/Y was expected.
- **The Chinese industrial profits slumped once again, dropping from 0.1% Y/Y to -4.6% Y/Y in October**, making it the second lowest reading this year.
- **Portugal’s far-left socialist government was sworn in Yesterday**, as Prime Minister Costa promises to end austerity and guarantees that the country will adopt a disciplined budget.
- Commodities seem to have hit somewhat of a stabilisation, **Brent Crude is down -0.5%, currently trading at 45.2\$/barrel** and metals are trading higher, with **Copper up 1.7% and Aluminium up 3.1%**.
- Today, **the eco-calendar remains thin**. In the eurozone, there is the economic confidence indicator for November.
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# Rates

## Bund stabilizes just below highs

*Dull trading on Thanksgiving*

	US yield	-1d
2	0,9303	-0,0040
5	1,6495	-0,0213
10	2,2078	-0,0263
30	2,973	-0,0214

	DE yield	-1d
2	-0,4140	0,0010
5	-0,1854	-0,0029
10	0,4712	-0,0027
30	1,3120	-0,0038

The German Bund traded sideways around the recent highs yesterday in a dull session. Traded volumes were very low with US markets closed for Thanksgiving. Positive risk sentiment on equity markets was counterbalanced by some end-of-month extension flows. M3 money and lending data were pretty upbeat for the economic outlook, but couldn't trigger action by traders. They remain convinced about next week's aggressive ECB easing. The Bund contract high (158.60) stayed out of reach. In a daily perspective, changes on the German yield curve declined less than 1 bp. On intra-EMU bond markets, 10-yr yield spreads versus Germany were nearly unchanged with Portugal outperforming (-8 bps) and Greece underperforming (+9 bps).

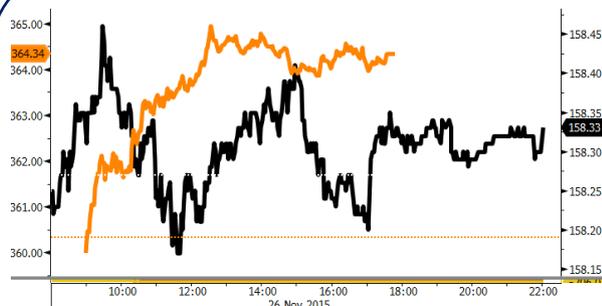
Mr. Costa, the Portuguese Socialist leader, took office as Portugal's new Prime Minister of a minority government supported by two far-left parties, ending a two month period of political instability. While doubts are lingering about Costa's anti-austerity policy, investors seem currently happy that the political deadlock ended. However, instability risks to return in the medium term.

*Black Friday keeps US calendar empty and most traders in the shopping malls*

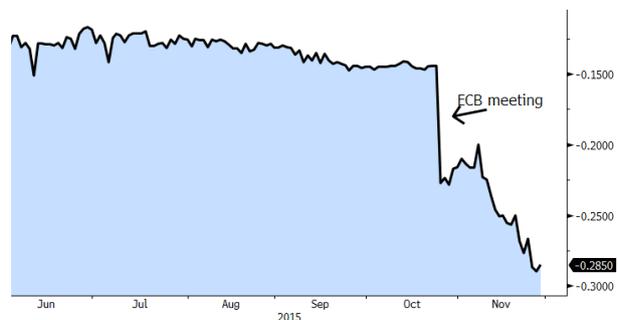
*Risks EC EMU Confidence on the upside*

## Only EMU confidence data of importance

Today, the eco-calendar remains empty in the US, where Black Friday will keep trading desks sparsely populated and thus dull trading is the most likely outcome. In the eurozone, the November EC economic confidence is expected to have stabilized at 105.9. We see upward risks to consensus, due to an already published better consumer confidence and to better than expected PMI's released earlier this week. French consumer spending and Italian confidence data are interesting too, as these countries lagged EMU growth, even if some catching up was visible in recent months, especially in Italy. Normally, they don't move markets though. The speech of ECB Knot (Dutch) is about financial stability and thus likely irrelevant for trading. However, in the past, the Dutch Central Bank's views were closely linked to the orthodox Bundesbank ones. Recently, ECB Lautenschlaeger and Weidmann (German) called more monetary easy unnecessary. Will Knot join again his erstwhile allies and enlarge the opposition towards president Draghi's aggressive policy?



Bund future (black) & Eurostoxx (orange): Sideways dull trading session Bund, but equities gain ground



Eonia (1st ECB meeting) trades currently at -0.28 bps. Given that it's usually 5 bps above deposit rate, markets discount a 13 bps deposit rate cut.

R2	160,62	-1d
R1	158,6	
<b>BUND</b>	<b>158,33</b>	0,0900
S1	157,05	
S2	154,81	

## Italian BTP auctions: plain vanilla demand?

The Italian debt agency concludes this week's scheduled EMU bond supply by tapping the on the run 5-yr BTP (€2-2.25B 0.65% Nov2020) and 10-yr BTP (€1.25-1.75B 2% Dec2025). The bonds richened in ASW-spread terms in the run-up to the auction and especially the 10-yr BTP trades rather expensive at the Italian curve. Nevertheless, the amount on offer is relatively low for Italian standards while peripheral risk sentiment remain strong. Therefore, we expect a plain vanilla auction. Apart from the BTP, the Italian Treasury also taps the on the run 7-yr CCTeu (€0.5-1B Dec2022).

## Today: More technically-inspired trading

**Overnight**, most Asian stock markets trade negative with China underperforming (-5%) on the back of weaker industrial profits, widening broker probes and corporate default rumours. Overnight, the US Note future trades stable though. If negative risk sentiment spills to Europe, it could trigger a test of the 158.60 contract high in the Bund. For a sustained break, we believe that more fundamental news is necessary.

**Today**, the eco calendar remains empty in the US. Volumes will remain low because of thinly-staffed dealing rooms the day after Thanksgiving (Black Friday). In EMU, only EC confidence indicators (upside risks) are scheduled for release. **Given these circumstances, we expect more technically-inspired trading in core bond markets.** Risk sentiment on equity markets, end-of-month extension buying, safe haven flows ahead of the weekend, nearby resistance levels (Bund: 158.60),... It's hard to say which one will dominate.

**Technically, the fundamentals (ECB) and technicals (uptrend channel) remain bullish for the Bund. We stay cautious though 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 remains in upward trend channel. Ready to test October high, but no break expected.



US Note future: keep sell-on-upticks strategy.

# Currencies

## EUR/USD and USD/JPY hold tight ranges

*EUR/USD and USD/JPY drifted sideways yesterday*

R2	1,083	-1d
R1	1,0763	
<b>EUR/USD</b>	<b>1,0628</b>	0,0007
S1	1,0566	
S2	1,0521	

*Asian risk sentiment deteriorates on negative headlines from China*

*The dollar loses slightly ground against the euro and the yen*

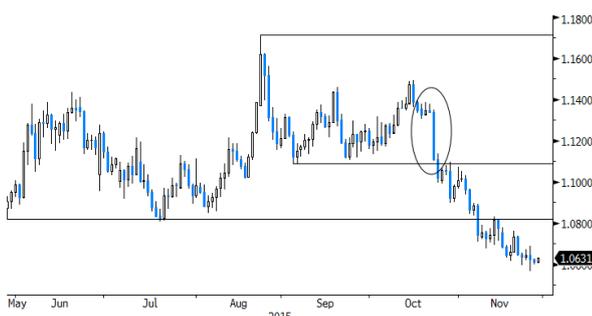
Yesterday, currency traders experienced a dull trading session. Trading in the major USD cross rates was confined to tight ranges. US market were closed in observance of the Thanksgiving holiday. The EMU lending data were OK, but didn't change market expectations for additional ECB easing next week. European yields and the euro held near the recent lows. EUR/USD traded in a tight range just above the 1.06 big figure and closed the session at 1.0610 (from 1.0624 on Wednesday). USD/JPY hardly profited from positive equity sentiment in Europe. The pair ended the session at 122.57 (from 122.74).

**Overnight**, Asian equities are mostly trading in the red. China underperforms. Japanese data were mixed. The unemployment rate dropped unexpectedly from to 3.1% from 3.4%. Household spending disappointed again. **CPI data were close to expectations**. The National core CPI (ex fresh food and energy) was unchanged at 1.2%. As usual, the data had hardly any impact on yen trading. **The news flow from China is negative**. Industrial profits declined more than expected (-4.6% Y/Y). Several brokerages are subject to regulatory probes and at least two bond issuers signal difficulties to meet their payment obligations. Chinese equities (losses off around 5%) and the yuan (USD/CNY 6.3950 currently) are trading in the red. The impact of the tensions in Asia on the major USD cross rates is modest. USD/JPY loses a few ticks in the 122.40 area. EUR/USD holds within yesterday's trading range in the 1.0620 area.

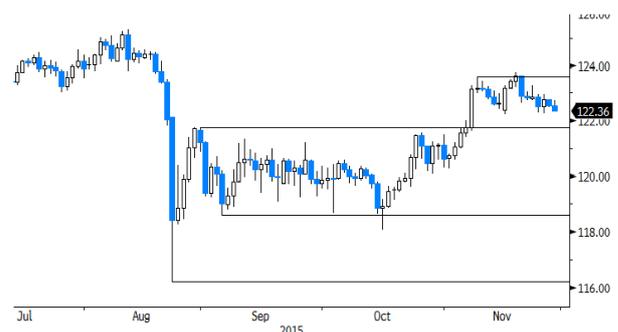
**Today**, the calendar is again rather thin. There are no important eco data in the US. **In the EMU, the EC's confidence indicators will be published**. Of late, European confidence data often surprised on the upside. Such a scenario is also possible for the EC confidence data. At the same time, **better than expected EMU eco data were largely ignored recently**. Markets assume that the ECB will add substantial monetary easing at next week's policy meeting, 'whatever the data'. The expectation for aggressive monetary easing keeps the euro near the recent lows. We don't expect the markets' assessment on (good) EMU data to change today. In a day-to-day perspective, we look out whether there are any negative spill-over effects from the risk-off in China on US and European markets. **If so, it might trigger a limited rebound in the euro against the dollar as the single currency is still the preferred carry funding currency**. However, of late; the upside of the euro proved well capped ahead of the ECB meeting, even in case of global risk-off sentiment. **In this scenario USD/JPY might lose some further ground today**

*Today, the EC confidence data will be published*

*Negative risk sentiment might be slightly positive for the euro*



EUR/USD: ready for a slight risk-off rebound?



USD/JPY: drifting cautiously lower

*Topside of the euro looks well protected going into next week's ECB policy decision*

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. For USD/JPY, the cycle tops in the 125.28/86 area came on the radar, but a test looks difficult short-term.

R2	0,725	-1d
R1	0,7197	
<b>EUR/GBP</b>	<b>0,7042</b>	0,0021
S1	0,6982	
S2	0,6936	

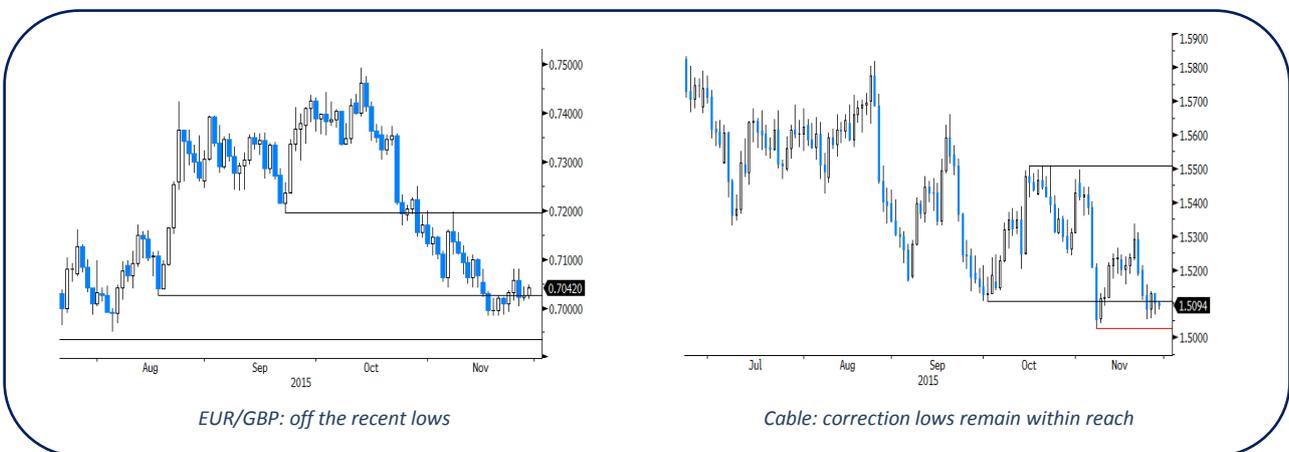
**Risk-off sentiment to weigh on sterling?**

On Thursday, the UK currency failed to build on Wednesday's positive momentum. There was little sterling specific news. Trading in the UK currency was technical in nature. Sterling partially reversed Wednesday's rebound. Cable came close to the key 1.5060 support area intraday, but the test was again rejected. The pair closed the day at 1.5102. EUR/GBP rebounded to the 0.7040/45 area, but closed off the intraday highs at 0.7026 (from 0.7022).

Overnight, the UK GfK consumer confidence was slight below the consensus at 1 (versus 2 expected). Sterling is losing ground against the euro and the dollar this morning, but this probably due to the global risk-off sentiment.

Later today, the details of the UK Q3 GDP will be published. Markets will keep an eye at the contribution of private consumption and of net exports. Negative surprises in those components might be a slightly negative for sterling. However, we expect the reaction of sterling to the data to stay limited. Global sentiment on risk might be more important for sterling trading. Sterling might come under pressure again in case of substantial negative spill-over effects from China on European equities. In that case, a scenario similar to Tuesday might be on the cards

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. The correction low at 0.6982 has become an interim support.



EUR/GBP: off the recent lows

Cable: correction lows remain within reach

# Calendar

Friday, 27 November		Consensus	Previous
<b>Japan</b>			
00:30	<b>Jobless Rate (Oct)</b>	<b>A: 3.1%</b>	<b>3.4%</b>
00:30	<b>Job-To-Applicant Ratio (Oct)</b>	<b>A: 1.24</b>	<b>1.24</b>
00:30	Overall Household Spending YoY (Oct)	A: -2.4%	-0.4%
00:30	Natl CPI YoY (Oct)	A: 0.3%	0.0%
00:30	Natl CPI Ex Fresh Food YoY (Oct)	A: -0.1%	-0.1%
00:30	Natl CPI Ex Food, Energy YoY (Oct)	A: 0.7%	0.9%
00:30	<b>Tokyo CPI YoY (Nov)</b>	<b>A: 0.2%</b>	<b>0.1%</b>
00:30	<b>Tokyo CPI Ex-Fresh Food YoY (Nov)</b>	<b>A: 0.0%</b>	<b>-0.2%</b>
00:30	<b>Tokyo CPI Ex Food, Energy YoY (Nov)</b>	<b>A: 0.6%</b>	<b>0.4%</b>
<b>China</b>			
02:30	Industrial Profits YoY (Oct)	A: -4.6%	-0.1%
<b>UK</b>			
01:05	<b>GfK Consumer Confidence (Nov)</b>	<b>A: 1</b>	<b>2</b>
10:30	<b>GDP QoQ/YoY (3Q P)</b>	<b>0.5%/2.3%</b>	<b>0.5%/2.3%</b>
10:30	Private Consumption QoQ (3Q P)	0.7%	0.7%
10:30	Government Spending QoQ (3Q P)	0.1%	0.9%
10:30	Gross Fixed Capital Formation QoQ (3Q P)	0.9%	0.9%
10:30	Exports QoQ (3Q P)	0.9%	3.9%
10:30	Imports QoQ (3Q P)	3.5%	0.6%
10:30	Total Business Investment QoQ/YoY (3Q P)	0.8%/--	1.6%/3.1%
10:30	Index of Services MoM/ 3m/3m (Sep)	0.3%/0.8%	0.0%/0.9%
<b>EMU</b>			
11:00	<b>Economic Confidence (Nov)</b>	<b>105.9</b>	<b>105.9</b>
11:00	Business Climate Indicator (Nov)	0.45	0.44
11:00	Industrial Confidence (Nov)	-2.1	-2.0
11:00	Services Confidence (Nov)	12.0	11.9
11:00	<b>Consumer Confidence (Nov F)</b>	<b>--</b>	<b>-6.0</b>
<b>Germany</b>			
13:00	<b>GfK Consumer Confidence (Dec)</b>	<b>9.2</b>	<b>9.4</b>
<b>France</b>			
08:45	PPI MoM/YoY (Oct)	--/--	0.1%/-2.6%
08:45	Consumer Spending MoM/YoY (Oct)	-0.1%/2.8%	0.0%/2.6%
<b>Italy</b>			
10:00	Consumer Confidence Index (Nov)	116.5	116.9
10:00	Business Confidence (Nov)	106.0a	105.9
10:00	Economic Sentiment (Nov)	--	107.5
<b>Belgium</b>			
	CPI MoM/YoY (Nov)	--/--	0.35%/1.28%
<b>Norway</b>			
09:00	CPI EU Harmonised MoM/YoY (Nov P)	0.0%/-0.7%	0.3%/-0.9%
10:00	Unemployment Rate (Nov)	--	2.9%
<b>Sweden</b>			
09:30	Retail Sales MoM/NSA YoY (Oct)	--/--	0.7%/3.7%
<b>Events</b>			
09:00	<b>EMU - ECB's Knot Speaks at Sustainable Finance Lab in Amsterdam ()</b>		
11:10	Italy - Eur 0.5-1bn Dec 2022 CCTeu, Eur 2-2.5bn 0.65% Nov 2020 BTP, Eur 1.25-1.75bn 2% Dec 2025 BTP		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,21	-0,03	US	0,93	0,00	DOW	17813 17813,39
DE	0,47	0,00	DE	-0,41	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,80	0,00	BE	-0,33	-0,01	NIKKEI	19884 19883,94
UK	1,84	-0,05	UK	0,59	-0,03	DAX	11320,77 11320,77
JP	0,31	0,00	JP	0,00	0,00	DJ euro-50	3499 3498,62

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,066	1,229	1,135	Euribor-1	-0,16	0,00	Eonia EUR	-0,139	-0,005
5y	0,166	1,556	1,411	Euribor-3	-0,10	0,00	Libor-1 USD	0,50	0,50
10y	0,835	2,052	1,816	Euribor-6	-0,03	0,00	Libor-3 USD	0,57	0,57
							Libor-6 USD	0,73	0,73

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0628 0,0007	EUR/JPY	130,05 -0,14		185,7001	1067,1	45,23
USD/JPY	122,35 -0,24	EUR/GBP	0,7042 0,0021	-1d	0,43	-6,10	-0,86
GBP/USD	1,5087 -0,0035	EUR/CHF	1,0872 0,0015				
AUD/USD	0,7212 -0,0018	EUR/SEK	9,2739 0,00				
USD/CAD	1,3310 0,0013	EUR/NOK	9,2066 0,02				

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