



## Sunrise

Thursday, 18 February 2016

### Rates: US Notes lower on risk-on, but German bonds show strong resilience

A typical risk-on session yesterday, with Bunds showing resilience. Today, the US eco data won't have lasting impact, but the ECB Minutes and Fed Williams might be more interesting. Overall, risk sentiment and technical factors will continue to drive trading, but underlying dovish central banks could possibly reduce losses in case of positive market sentiment.

### Currencies: Dollar little changed even as oil and equities rebound

Yesterday, the dollar couldn't profit from a USD friendly context. Good US eco data, a higher oil price and strong equities were counterbalanced by soft Fed Minutes and soft Fed comments. Similar dollar picture overnight. EU/UK negotiations on new terms for the UK to stay in EU is the focus for sterling and euro today.

### 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 extended their rebound yesterday**, rising for a third consecutive session as oil prices picked up and production data surprised on the upside. The S&P gained 1.65% and the Nasdaq 2.2%. This morning, **Asian stocks copy Wall Street's gains**. Japanese and Hong Kong stocks take the lead.
- Several Federal Reserve policymakers saw increased risks facing the US economy with **some indicating that the risks to the outlook were no longer balanced**, the **Minutes of the January FOMC meeting** showed, suggesting that they are increasingly reluctant to raise rates in March.
- China's consumer price inflation edged up in January**, from 1.6% Y/Y to 1.8% Y/Y, buoyed by rising food prices ahead of the Lunar New Year holidays. The uptick was however more limited than expected.
- Japanese exports fell in January at their strongest pace since the global financial crisis** due to weak demand from China and other major markets. Also imports showed its biggest drop since October 2009, falling by 18% Y/Y.
- Brent crude oil prices rose 8% yesterday** supported by an unexpected fall in US crude stocks. Iran supported the proposal to freeze oil production, but for now offered no signs it would curb its own output. The Brent oil price rose above \$35/barrel this morning.
- Rating agency Standard & Poor's downgraded the credit ratings of Saudi Arabia, Brazil, Kazakhstan, Bahrain and Oman** in its second mass cut of large oil producers in almost one year, citing pressures being created by the drop in oil prices.
- Today, the **eco calendar** contains the US jobless claims and US Philly Fed index. The **ECB will publish the Minutes of its January MPC meeting** and **EU leaders start their two-day Summit on the UK's membership**.

# Rates

## Limited losses for core bonds in risk-on environment

*Bunds unmoved by risk-on sentiment*

*US curve shifts modestly higher*

*Peripheral spreads narrow*

	US yield	-1d
2	0,7297	0,0242
5	1,2476	0,0552
10	1,8035	0,0570
30	2,6727	0,0595

*Bullard, third Fed governor to call for delay in tightening policy further*

*Minutes suggest the Fed's dots will come down in March forecasts*

	DE yield	-1d
2	-0,5050	-0,0020
5	-0,2920	0,0030
10	0,2710	0,0090
30	0,9796	0,0109

*Fed Williams and BoE Cunliffe speak*

*EU Summit on Britain's EU membership*

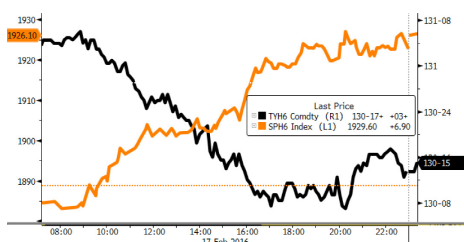
*US Philly Fed & claims*

Global core bonds traded with a downward bias on the back of stronger equities, a higher oil price and better than expected US eco data. PPI jumped unexpectedly higher and also production showed a strong advance, be it following a long string of very bad figures. The FOMC Minutes were dovish (see lower). US Treasuries underperformed German Bunds, which limited the losses. In a daily perspective, the US yield curve shifted 2.2 bps (2-yr) to 5.4 bps (7-yr) higher. The US Note future trades below the steep uptrend line since the start of the year (see graph next page). The German yield curve barely moved with changes between +0.3 bps and +0.8 bps across the curve. On intra-EMU bond markets, 10-yr yield spreads versus Germany ranged between -2 bps and -3 bps with Greece (-17 bps) and Portugal (-7 bps) outperforming.

**St-Louis Fed Bullard** called raising rates unwise, as inflation falls short. Bullard pointed to the recent market turmoil and decline in market-based inflation expectations as arguments to delay rate increases. Interestingly, he said that the Fed should contemplate whether the dot plot is a good way of communicating the Fed's intentions. Despite his call for a pause, he remained optimistic on the growth outlook, as he expects growth stronger this year than last year. **It could be viewed as an inadvertent calendar-based commitment to increase rates.** Following Fed governors Harker and Rosengren, he is the third Fed governor to explicitly call for a delay of further tightening. The **January FOMC Minutes were dovish**. Many Fed officials saw the risks to the outlook increasing amid slowing economies globally (China/EM) and market turmoil. Lower equity prices and higher credit spreads already tighten financial conditions. **It suggests that the median dot plot, which suggested 4 rate hikes in December, will be revised lower when the Fed meets again in March**

## Today: US eco data & EU Summit highlights

Today, only US eco data have market moving potential. Attention will also go to the **EU Summit on Britain's EU membership** and the **ECB publishes the Minutes** of its January Monetary Policy Meeting. Following a rebound in January, the **Philly Fed manufacturing index** is expected broadly unchanged in February. The consensus is looking for a tiny uptick from -3.5 to -3.0, but last month's details suggest that a sharper improvement is likely. Last week, **US initial jobless claims** came out well below the consensus, falling to 269K and nearing again the lows from the end of 2015. For this week, the consensus is looking for a limited uptick to 275K. Risks are for **an upside surprise** as more seasonal temperatures (colder) might lead to more construction layoffs.



T-Note (black) and S&P future (orange) (intraday): typical risk-on move



US 5yr/5yr inflation expectations (red): Bullard says declining expectations warrant delay tightening

R2	167	-1d
R1	166,16	
<b>BUND</b>	<b>164,36</b>	0,0000
S1	163,25	
S2	162,86	

## French and Spanish auctions

**Today, the French treasury taps the on the run 3-yr OAT (0% Feb2019) and 5-yr OAT (0.25% Nov2020) for a combined €6.5-7.5B.** In the run-up to the auction, the recently launched Feb2019 OAT cheapened somewhat in ASW-spread terms, while the Nov2020 OAT traded stable. Both bonds trade a tad cheap on the French curve. Overall, we expect plain vanilla demand. Additionally, France intends to raise €0.5-1B by tapping two inflation-linked bonds. **The Spanish debt agency auctions the on the run 3-yr Bono (0.25% Jan2019), 5-yr Bono (1.15% Jul2020) and 10-yr Obligacion (1.95% Apr2026) for a total amount of €3-4B.** While the relatively low amount on offer should be easy to digest for investors, demand could be hampered by the Spanish political deadlock and/or potential future shift in the government. On the Spanish curve, the bonds on the run are slightly expensive as well.

## Today: Period of sideways, rangebound trading ahead?

**Overnight,** Asian markets extend yesterday's positive sentiment in Europe and the US with main indices up to 2% higher. Oil prices are on the rise as well with Brent flirting with the \$35/barrel mark. The US Note future trades stable though as higher stocks and commodities are counterbalanced by dovish comments of Fed governor Bullard and dovish FOMC Minutes (see above). Chinese inflation data were slightly below expectations. We expect a neutral opening for the Bund.

**Today's eco calendar** contains only US eco data. Risks are on the upside of expectations, but the second-tier releases are unlikely to leave a lasting stamp on trading. The ECB Minutes of the January meeting will give us more flavour about the internal debate on additional easing in March (how much support? What kind of action?...). They should thus be dovish, but that shouldn't come as a surprise. After the European closure, Fed Williams talks on the economic outlook. The heavyweight SF Fed governor has a centrist profile and we think he'll plead in favour of prudence with regard to additional rate hikes in line with Rosengren, Harker and Bullard. **So overall, risk sentiment and technical factors will continue to drive trading, but underlying (dovish) central bank talk should reduce any possible losses in case of positive risk sentiment.**

Technically, the US Note future dropped below the steep uptrend line since the start of the year, suggesting a loss of momentum. We expect sideways trading ahead, roughly between 129 and 133. The picture for the Bund is more or less similar.



German Bund: no longer overbought. Short-term end to rally? More sideways action ahead?



US Note future: Drop below steep uptrendline since start of the year suggests loss of momentum. Sideways trading ahead?

# Currencies

## Dollar maintains modest gains

R2	1,1495	-1d
R1	1,1376	
<b>EUR/USD</b>	<b>1,1149</b>	<b>-0,0016</b>
S1	1,106	
S2	1,081	

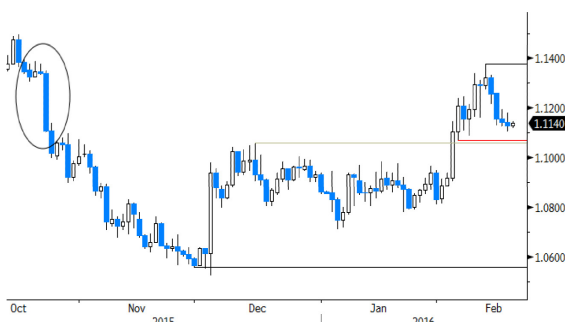
## Asian equities reconnect to global rebound

## Dollar profits only marginally from higher oil prices and strong equities

## Dollar maintains modest gains

On Wednesday, the Asian equity rebound ran into resistance, as the PBOC fixed the yuan weaker than expected. However, European and US remained constructive, protecting the dollar downside. The US PPI and production data were stronger than expected, supporting modest additional USD gains. Oil also went further up. The Fed Minutes showed that the FOMC acknowledged the risks from the recent market turmoil on growth and inflation. The impact on the dollar was limited, as equities continued to perform strongly. EUR/USD closed the session at 1.1128 (from 1.1144 on Tuesday). USD/JPY ended the session little changed at 114.10 (from 114.06).

**Overnight**, Asian equities reconnect to the rebound in the US. The rally is supported by an ongoing rise of the oil price. Chinese CPI rose slightly less than expected (1.8% from 1.6%). Chinese PPI (-5.3%) was marginally 'higher' than expected. The PBOC fixed the yuan slightly stronger at USD/CNY 6.5152. The CNY (currently at 6.5173) and the CNH (currently 6.5200) both rebound. Chinese equities underperform the rest of Asia. Japanese indices outperform after yesterday's setback despite poor Japanese foreign trade data. **USD/JPY is little changed from yesterday's close and still struggles to regain the 114 barrier.** The **Aussie dollar** fails to profit from higher oil prices, as labour data were substantially weaker than expected. The unemployment rate rose from 5.8% to 6.0%. **The overall gains of the dollar remain limited (DXY more or less stable at 96.75). This pattern is also visible in EUR/USD. The pair trades little changed in the 1.1135 area.** This morning, Fed's Bullard kept said it wasn't wise to tighten policy with inflation expectations falling. It might be slightly USD negative.



EUR/USD: dollar maintains recent gains against the euro



USD/JPY struggles to regain 114 big figure

## Eco calendar is modestly interesting

## Will US eco data and global market sentiment support further dollar gains?

**Today**, only US data have market moving potential. **The Philly Fed business outlook** is expected broadly unchanged, but last month's details suggest bigger gains this month too. Last week, **US initial jobless claims** came out below the market consensus, falling to 269 000. The consensus is looking for a limited uptick to 275 000. We see upward risks as more seasonal weather (colder) might lead to more layoffs in the construction sector. So, **the data might be mixed, maybe slightly USD supportive.** The EU summit about the place of the UK in EU might (temporary) become a factor for global market sentiment.

Thursday, 18 February 2016

**It will be interesting to see whether oil and equities can sustain their rebound. If so, it supports core/US bond yields and the dollar.** The jury is still out, but for now there is no indication of a U-turn on the risk-on rebound. We started the week with a cautiously USD positive bias, with the 1.1060/70 area as a potential short-term target. The USD rebound is not spectacular, but we maintain our cautious USD positive bias.

**From a technical point of view, EUR/USD broke above the 1.1060/1.1124 area (15 Dec top/62% retracement). This was USD negative. The correction high stands at 1.1376. Next important resistance kicks in at 1.1495.** We see some short-term topping out process in EUR/USD with room for a correction lower in the range. **USD/JPY dropped below the key 115.98 pre-BOJ low.** Japanese officials warned on potential action, putting a short-term floor under the pair. Even so, it remains vulnerable if global tensions resurface. **Any rally might soon run into resistance . The 115.98 previous low is a first technical resistance.**

### Sterling in wait-and-see modus ahead of EU summit

R2	0,8066	-1d
R1	0,7898	
<b>EUR/GBP</b>	<b>0,7802</b>	<b>-0,0019</b>
S1	0,7661	
S2	0,7526	

**On Wednesday,** sterling was initially on the defensive. Global sentiment was cautious, oil declined while the uncertainty on the EU/UK negotiations was also negative for sterling. **EUR/GBP filled offers in the 0.7845 area early in Europe.** However, the context gradually became more 'sterling-friendly'. Oil and equities rebounded and the UK labour report was strong. The unemployment rate remained at 5.1%, but employment reached a record high. Weekly earnings growth was modest, but slightly higher than expected. EUR/GBP corrected already lower ahead of the labour report. The decline was extended to test the 0.7760 area. Part of this move was due the a decline of EUR/USD. Cable rebounded from the mid 1.42 area to the 1.4335/40 area after the labour data. **However, the pair showed no clear trend and closed at 1.4294 (from 1.4306). EUR/GBP also ended the session little changed at 0.7786 (from 0.7789).**

**Today,** there are no important UK eco data . So, sterling traders can focus on the EU summit, discussing the terms for the UK to stay in the EU. Markets still see an agreement as the mostly likely scenario. If this comes true, sterling might rebound, but the internal debate in the UK will continue. No deal will cause more losses for sterling, but may also cause losses for the euro against the likes of the yen and the dollar. **We stay cautious on sterling until there is more clarity on the EU/UK negotiations as there is too much binary risk. The medium term technical picture of sterling against the euro remains negative as EUR/GBP broke above the 0.7493 Oct top. First resistance stands at EUR/GBP 0.7898.** A return below EUR/GBP 0.74 would be a first indication that sterling enters calmer waters.



EUR/GBP holding near recent highs as Brexit uncertainty counterbalances strong labour data



GBP/USD: drifting back lower in the recent range

# Calendar

Thursday, 18 February		Consensus	Previous
<b>US</b>			
14:30	Philadelphia Fed Business Outlook (Feb)	-3.0	-3.5
14:30	Initial Jobless Claims	275k	269k
14:30	Continuing Claims	2250k	2239k
16:00	Leading Index (Jan)	-0.2%	-0.2%
<b>China</b>			
02:30	CPI YoY (Jan)	A: 1.8%	1.6%
02:30	PPI YoY (Jan)	A: -5.3%	-5.9%
<b>Japan</b>			
00:50	Trade Balance (Jan)	A: -¥645.9b	¥140.2b
00:50	Trade Balance Adjusted (Jan)	A: ¥119.4b	¥36.6b
00:50	Exports YoY (Jan)	A: -12.9	-8.0
00:50	Imports YoY (Jan)	A: -18.0	-18.0
<b>EMU</b>			
10:00	ECB Current Account SA (Dec)	--	26.4b
<b>France</b>			
08:45	CPI EU Harmonized MoM/YoY (Jan F)	-1.0%/0.4%	-1.0%/0.4%
<b>Spain</b>			
10:00	Trade Balance (Dec)	--	-1849.7M
<b>Sweden</b>			
09:30	CPI MoM/YoY (Jan)	-0.6%/0.5%	0.1% / 0.1%
09:30	CPI CPIX MoM/YoY (Jan)	-0.6%/1.3%	0.2%/0.9%
<b>Events</b>			
01:30	Fed's Bullard Speaks to CFA Society St. Louis		
09:55	BoE's Cunliffe Speaks on Panel at Swiss Finance Council Conference		
13:30	ECB account of the monetary policy meeting		
17:00	<b>EU Leaders Start 2-Day Summit on Britain's EU Membership &amp; the Refugee Crisis</b>		
21:30	Fed's Williams Gives Outlook Speech in L.A.		
<b>Bond auctions (€3-4B 0.25% Jan2019 Bono &amp; 1.95% Apr2026 Obligacion) (10:30)</b>			
<b>France OAT (€6.5-7.5B; 0.00% Feb 2019, 0.25% Nov 2020 OATs) (11:50) &amp; OATeis (€0.5-1B 1.85% Jul 2027, 1.80% Jul 2040) (12:50)</b>			
<b>US 30Yr TIPS Auction (\$7B) (19:00)</b>			

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,80	0,06	US	0,73	0,02	DOW	16454 16453,83
DE	0,27	0,01	DE	-0,51	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,61	-0,01	BE	-0,41	-0,02	NIKKEI	16197 16196,80
UK	1,48	0,04	UK	0,36	0,02	DAX	9377,21 9377,21
JP	0,03	-0,03	JP	-0,19	-0,02	DJ euro-50	2898 2897,72

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	Eonia EUR	-0,244	-0,002
3y	-0,112	0,892	0,859	Euribor-1	-0,25	Libor-1 USD	0,51	0,51
5y	0,066	1,149	1,040	Euribor-3	-0,19	Libor-3 USD	0,59	0,59
10y	0,623	1,639	1,482	Euribor-6	-0,12	Libor-6 USD	0,74	0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1149	-0,0016	EUR/JPY	126,85	-0,12		158,865	1208,6	34,87
USD/JPY	113,835	0,10	EUR/GBP	0,7802	-0,0019	-1d	-1,50	3,20	2,68
GBP/USD	1,4282	0,0009	EUR/CHF	1,104	0,0023				
AUD/USD	0,7146	0,0055	EUR/SEK	9,4695	-0,01				
USD/CAD	1,3662	-0,0221	EUR/NOK	9,5202	-0,11				



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