



Sunrise

Monday, 23 November 2015

Rates: Bonds in consolidation mode

In an unattractive session on Friday, bonds moved essentially sideways with small gains for the Bunds and losses for US Treasuries. Commodity slump, threats of terrorist attacks, EMU PMI's and a Fed discount meeting may spice trading today. We go for a consolidation/profit taking of core bonds.

Currencies: EUR/USD sets new short term low near 1.06

The dollar continues to profit from rising interest rate support, especially against the euro. A new down-leg in commodities supports the US currency, too. Today, the EMU PMI is the most important eco release but we don't expect a big impact on the euro. Anticipation on Fed and ECB action still dominates USD trading.

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	↓

- On Friday, **European equities** closed mixed, after a fairly uneventful day of sideways trading. **US equities** ended the week with modest gains after a solid open. Overnight, **Asian equities** trade mixed, with the Chinese indices showing small losses.
- On Friday, the Netherlands regained the top AAA rating from Standard & Poors**, coming from AA+ with a positive outlook, as the future growth prospects are stronger than expected
- In Argentina the centre-right opposition candidate Mauricio Macri won the presidential elections**, as the first polls suggest with a 54% victory. Macri will inherit a complex economic scenario, with a widening fiscal deficit and double-digit inflation.
- Commodities remain under heavy pressure**, with the **Brent Crude down -2%** this morning, trading at 43.79\$/barrel. **Metal prices also melt further**, with **Palladium down -2%** and **Copper down -2.35%**.
- Today, the **eco calendar for the US** contains the **Markit manufacturing PMI and the Chicago Fed** indicator. In **the EMU**, the **Markit PMI's** are also published for November.

Rates

	US yield	-1d
2	0,9213	0,0129
5	1,6913	0,0034
10	2,264	0,0052
30	3,0223	0,0048

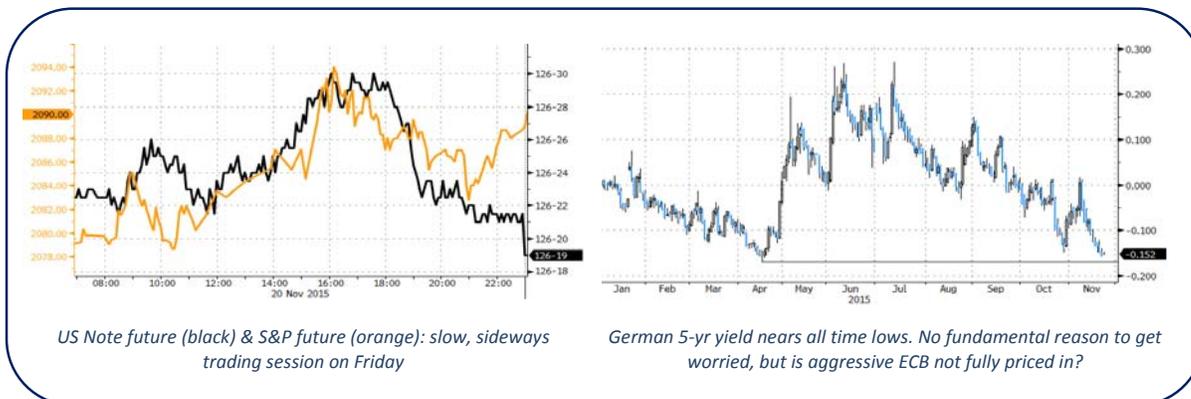
	DE yield	-1d
2	-0,3860	-0,0100
5	-0,1500	-0,0161
10	0,4803	-0,0116
30	1,2777	-0,0459

Consolidation on bond markets

On Friday, global bonds ended an uninspiring trading session nearly flat (German bonds) to slightly lower (US Treasuries). US Treasury yields closed between 2.5 bps (2-yr) and 1 bp (30-yr) higher, bear flattening the curve. German yields were less than 1 bp down till the 10-yr tenor, but the 30-yr yield fell 3 bps. On intra-EMU bond markets, 10 yr yield spread changes ranged between -2 bps and +2bps with Greece outperforming (-5 bps).

Thanksgiving to dominate the trading week

The US calendar is very busy till Wednesday. On Thursday, the US Treasury market will be closed for Thanksgiving holiday, while on black “shopping” Friday, trading will be super light amid an empty calendar. We won’t elaborate on the US data in length today, but unless sharp surprises, which we don’t expect, it won’t have a major impact on trading. These data won’t change the views of the FOMC governors as such. The payrolls next week will be last key release before the FOMC meeting. No Fed governors are scheduled to speak this week. The EMU calendar contains three items: the PMI’s today (see below), the M3 money supply figures and the EU Commission confidence data. All these data are expected to show a stabilization versus the previous (October/September) month. We have no reasons to distance ourselves from these consensus estimates. So, also EMU data have only limited market moving potential. There are only a few ECB members speaking. Lautenschlaeger on Monday, Nouy (on banking?) and Mersch on Tuesday and Knot on Friday. No key figures inside the ECB and we believe that markets have by now a good idea about the outcome of the Dec 3 ECB meeting.



Auction calendar busy

R2	160,62	-1d
R1	158,6	
BUND	157,96	-0,0300
S1	156,78	
S2	154,81	

The weekly auction calendar is busier. In the US, the Treasury holds its end-of-month financing operations with the 2, 5 and 7 and FRN auctions from today till Wednesday. In EMU, the Belgian Kingdom kicks off the issuance today with its tap of the 0.8% 2025 OLO and the 5.50% 2028 OLO (€2B). Belgium has fulfilled its 2015 funding need and starts now some 2016 pre-financing. The auctions should go well. On Tuesday, the Netherlands and Finland tap the 2025 sector for amounts of €1-2B and €1B respectively. On Wednesday, Italy issues zero coupon bond (2017) and BTPei 2024 for a total amount of €3.5B. Germany taps

its Aug2025 for €3B, probably again a very difficult task. On Friday, **Italy auctions** its 2022 FRN (€2B) and its 5 and 10 year BTP (€5.5B)

S&P upgraded the Dutch rating from AA+ (positive outlook) to AAA, two years after it lost its AAA rating on economic difficulties. The Netherlands is now again together with Germany and Luxemburg the only countries with a clean AAA range of all three major agencies. We don't expect the S&P decision to have a major impact on DSL bonds.

Today: Some profit taking in thin trading?

Overnight, Asian equities trade mixed (Japan is closed) Commodities like oil, copper, zinc and gold continue their slump. The T-Note future slides lower and now retests key support at 126-16. This suggests the Bund may start a little softer too, but we wouldn't take it for granted.

Today, the eco calendar is interesting with EMU PMI's. The market expects stabilization at a decent level. We side with the consensus view. **A very strong report is likely needed to unsettle the markets and bring some doubts about the aggressiveness of the upcoming ECB easing measures.** The US eco data have less market moving potential. However, at its **regular Fed discount rate meeting**, regional banks will request an increase of the discount rate to 1% (+25 bps) to normalize the spread with the FF rates (already in October 8 out of 12 regional Fed banks asked such a measure). **While symbolic, it will reinforce expectations of a Fed lift-off in December**, which may be why the US Treasuries are on the defensive already in Asia. Geopolitical tensions, terrorist threats and strikes and the equity risk sentiment are the wildcards, which might eventually help core bonds. **However, given the shortened trading week in the US and the not too attractive calendar, trading may be primarily technically inspired.**

Technically, both the US T-Note and the Bund regained lost support levels. The Bund (158.02) is close to the contract high at 158.60 and the 10-yr yield is back under 0.50%. **The Bund hasn't registered one day of losses in the past ten sessions. So, while the fundamentals and technicals are bullish, we would become cautious and consider some lightening of long positions especially if we would test the highs. We see, as before, little value when German 10-yr yield is below 0.50%.** The T-Note future is again testing key 126-16 support, as the earlier break didn't trigger additional buying. Therefore, we hold our sell-on-upticks for US Treasuries or even lightening long positions straight away.



German Bund: back in upward trend channel



US Note future: short term consolidation but sell on upticks anticipating monetary tightening cycle

Currencies

EUR/USD decline continues as Draghi talks soft again

R2	1,1072	-1d
R1	1,083	
EUR/USD	1,06255	-0,0092
S1	1,0521	
S2	1,0458	

Commodities resume downtrend

Dollar still in the driver's seat

EMU advance PMI in focus

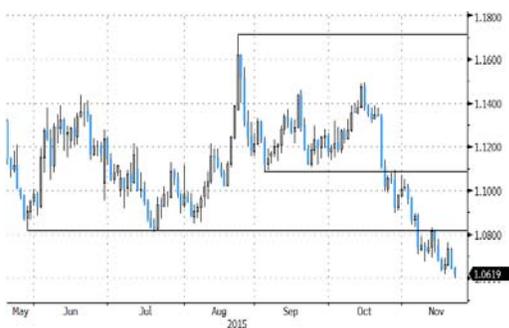
We keep an eye at short-term interest rate differentials and at commodities as a driver for USD trading

Dollar holds strong

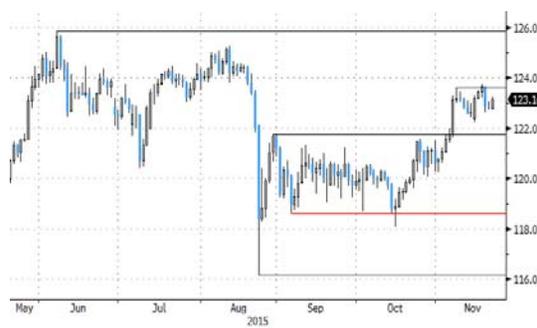
On Friday, there were no eco data with market moving potential in Europe and in the US. ECB Draghi reiterated that the ECB will do everything needed to reach its inflation target. EUR/USD returned below 1.07 after his quotes. Later in the session, the dollar was again better bid. 2-yr interest rate differentials between the US and Germany hit a new cycle top at 131 bps. EUR/USD came within reach of the recent low, but a real test didn't occur (yet). The pair closed the week at 1.0646, from 1.0734 on Thursday. USD/JPY ended the week at 122.81 (Thursday's close at 122.87).

Overnight, most Asian equities trade with modest gains. New rules on leveraged buying of Chinese equities apparently have no big negative impact on Chinese stocks. **Commodity weakness and USD strength are the most striking features for trading this morning.** During the weekend, SF Fed Williams said that there is a strong case for a Fed rate hike at the December meeting. The new down-leg in commodities leaves its traces on the Aussie and the kiwi dollar. AUD/USD dropped again below the 0.72 barrier this morning. Broad based USD strength pushed EUR/USD to a new short-term. The pair is currently trading in the low 1.06 area. USD/JPY rebounded too and trades again north of the 123 big figure.

Today, the advance reading of the EMU November PMI's will be published. The report is expected close to last month's. The EMU composite PMI is expected at 54.0 (from 53.9). **The figure confirms decent growth in EMU in Q4. Even so, the report won't change the ECB's assessment of downside risk to the economy and to inflation.** A big positive surprise (which we don't expect) is probably needed to have any positive effect on the single currency. **In the US**, the Chicago Fed national activity index and the existing home sales will be published. Both data series are usually only of intraday significance for USD trading, at best.



EUR/USD touches ST low .



USD/JPY rebounds on global USD strength

Of late, the ECB and the Fed already clearly communicated their intentions for their respective policy meetings in December. Still currency markets continue to play the divergence trade. At the current levels, a lot of good news should already be discounted for the dollar. CFTC statistics also suggest that the market is positioned short EUR/USD. At the same time, anticipation on aggressive ECB easing continues to weigh on the euro. This was again illustrated by the market reaction to ECB Draghi's comments on Friday. We keep a close eye at the short-

term interest rate differentials (2-yr) between the US and Germany. If the widening halts, the decline of EUR/USD might slow. Also keep an eye at commodities. At the end of last week, it looked that the downside pressure on some commodities eased a bit, but the downtrend apparently resumes. This might be a slight additional supportive for the dollar short-tem. **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 (neckline 1.1087/1.1105) 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 are coming on the radar, but a test looks difficult short-term.

EUR/GBP holds near the recent lows

R2	0,725	-1d
R1	0,7197	
EUR/GBP	0,7	-0,0011
S1	0,6982	
S2	0,6936	

On Friday, trading in the major sterling cross rates was mainly driven by technical considerations. The early morning, Draghi-driven, decline of the euro pushed EUR/GBP back below the 0.70 level. **However, later in the session, cable also faced selling pressure as the dollar remained in a rather good shape across the board.** UK monthly public finance data were disappointing but as usual largely ignored. Cable closed the session at 1.5169, down 1 big figure from Thursday. EUR/GBP ended the day at 0.7009 (from 0.7020).

Today, there are again no important data on the calendar in the UK . At the start of the new week global dollar strength still looks to be the name of the game. This is a negative for cable. At the same time, the decline in EUR/USD will probably continue to be a moderately negative for EUR/GBP. So, the recent lows in the 0.6982 area might come again under pressure. Sterling traders will look forward to a hearing of several BoE members, including BoE's Carney, before a UK Treasury Committee on Tuesday

Looking at the broader picture, the soft stance of the ECB pushed EUR/GBP again lower in the longstanding sideways range. The pair cleared a first support at 0.7196 after the October 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 as euro weakness prevails. Next key support is this year's low at 0.6936.



EUR/GBP holds near the recent lows

Cable: dollar weakness prevails

Calendar

Monday, 23 November		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Oct)	--	-0.37
15:45	Markit US Manufacturing PMI (Nov P)	54.0	54.1
16:00	Existing Home Sales (Oct)	5.40m	5.55m
16:00	Existing Home Sales MoM (Oct)	-2.7%	4.7%
EMU			
10:00	Markit Eurozone Manufacturing PMI (Nov P)	52.2	52.3
10:00	Markit Eurozone Services PMI (Nov P)	54.1	54.1
10:00	Markit Eurozone Composite PMI (Nov P)	54.0	53.9
Germany			
09:30	Markit/BME Germany Manufacturing PMI (Nov P)	52.0	52.1
09:30	Markit Germany Services PMI (Nov P)	54.3	54.5
09:30	Markit/BME Germany Composite PMI (Nov P)	54.1	54.2
France			
09:00	Markit France Manufacturing PMI (Nov P)	50.6	50.6
09:00	Markit France Services PMI (Nov P)	52.2	52.7
09:00	Markit France Composite PMI (Nov P)	52.3	52.6
Events			
12:00	Belgium - 0.8% Jun 2025, 5.5% Mar 2028 OLOs		
19:00	US - Usd 26bn 2-year note		

10-year	td	- 1d	2-year	td	- 1d	STOCKS	- 1d
US	2,26	0,01	US	0,92	0,01	DOW	17824 17823,81
DE	0,48	-0,01	DE	-0,39	-0,01	NASDAQ	or Exch - NQI #VALUE!
BE	0,79	-0,01	BE	-0,31	-0,02	NIKKEI	19880 19879,81
UK	1,88	-0,01	UK	0,61	-0,01	DAX	11119,83 11119,83
JP	0,33	0,01	JP	-0,01	0,00	DJ euro-50	3452 3452,45

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,133 0,004
3y	-0,057	1,218	1,146	Euribor-1	-0,15	0,00	Libor-1 USD	0,51 0,51
5y	0,175	1,574	1,427	Euribor-3	-0,09	0,00	Libor-3 USD	0,57 0,57
10y	0,835	2,074	1,835	Euribor-6	-0,02	0,00	Libor-6 USD	0,73 0,73

Currencies		- 1d	Currencies		- 1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,06255	-0,0092	EUR/JPY	130,79	-0,83		184,1165	1070,06	43,77
USD/JPY	123,16	0,33	EUR/GBP	0,7	-0,0011	- 1d	0,51	-15,00	-0,48
GBP/USD	1,5173	-0,0111	EUR/CHF	1,0836	-0,0018				
AUD/USD	0,7178	-0,0020	EUR/SEK	9,2719	-0,03				
USD/CAD	1,3386	0,0088	EUR/NOK	9,1890	-0,05				

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