



Sunrise

Friday, 18 December 2015

Due to our annual Christmas Holiday, there will be no KBC Sunrise from Monday, the 21st of December 2015 until Monday the 4th of January 2016. Next KBC Sunrise will be published on Tuesday, the 5th of January 2016.

Rates: Short term positive momentum

Since the Fed verdict, US Treasuries traded with an upward bias. Yesterday evening, core bonds got an additional boost by profit taking on US equity markets and sliding commodity prices. Short term, this rally can be extended but we prefer a sell-on-upticks approach around the recent highs.

Currencies: Dollar rebound runs into resistance

Profit taking in US equity markets stopped the post FOMC dollar "rally" yesterday eve. Sterling couldn't profit from favourable eco data, underlining the bad sentiment for the currency. We suspect trading volumes to drop rapidly now, which might lead to erratic price actions. For technical guidance see inside our report.

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** continued to build on the positive fed-momentum, as most indices closed with strong profits. **US equities** fell prey to profit taking as oil prices started sliding again. Overnight, **Asian equities** are trading mixed, as WS losses and weak commodities create downward pressure.
- The Bank of Japan maintained its money printing amount at the current rate, but it reorganised its massive programme.** The BoJ will extend the duration on their JGBs and will purchase Y300bn of ETFs that track JPX-Nikkei.
- Overnight, **the PBoC has weakened their renminbi fix for the tenth day in a row**, currently 5.97% weaker than where the renminbi was valued before the surprise mid-august devaluation.
- Mexico has hiked its benchmark interest rates to 3.25%**, becoming the first emerging market to follow the fed. Later on the night, **Chile also raised their interest rates to 3.50%**.
- Oil prices took a dive yesterday evening as **the WTI crude almost reached its low** (\$34.53/barrel), currently trading at \$34.84/barrel. Metal prices are back higher after sliding down overnight.
- Today the **eco-calendar is rather thin**, with only **Markit PMI data** in the US as a potential market mover. Fed governor **Lacker speaks** on the economic outlook.

Rates

Sell-the-rumour, buy-the-fact

	US yield	-1d
2	0,9767	-0,0320
5	1,6944	-0,0297
10	2,2163	-0,0460
30	2,9196	-0,0463

	DE yield	-1d
2	-0,3410	-0,0180
5	-0,0758	-0,0553
10	0,5941	-0,0826
30	1,3739	-0,0835

Yesterday, global core bonds eked out gains as markets digested Wednesday's Fed meeting. The outcome wasn't really surprising apart from the Fed dots which still suggest 4 rate hikes in 2016. That should put a bottom below US markets. Nevertheless, core bonds edged higher during European dealings despite very constructive European equity market sentiment (gains >1%). A sell-the-rumour, buy-the-fact reaction? The move got a second upleg during the US session as US stocks fell prey to profit taking, ending up to 1.5% lower. Data included slightly weaker than expected German Ifo-indicator, slightly better weekly US claims and a disappointing Philly Fed Business Outlook. Markets didn't react to the numbers. At the end of the session, both the German and US yield curve bull flattened. German yields fell 1.8 bps (2-yr) to 7.6 bps (30-yr). US yields decreased by 1.9 bps (2-yr) to 8.2 bps (30-yr). On intra-EMU bond markets, 10-yr yield spreads versus Germany widened up to 2 bps with Spain underperforming (+5 bps, see below). On intra-EMU bond markets, 10-yr yield spreads versus Germany widened up to 3 bps with Spain underperforming (+6 bps) ahead of this weekend's general election.

Thin eco calendar

Today the eco-calendar is rather thin, with only Markit PMI data in the US as a potential market mover. The Markit US services PMI is expected to decline slightly in December from 56.1 to 55.9. We see no real risks to the reading and side with the market consensus.



US Note future (black) and S&P future (orange): US Treasuries gain despite lift-off and hawkish 2016 FOMC dots. Sell-the-rumour, buy-the-fact?



Brent oil price flirts with cycle low (\$36.75/barrel)

Today: Upward bias into the weekend?

R2	161,71	-1d
R1	160,66	
BUND	158,44	1,0800
S1	156,4	
S2	154,54	

Overnight, losses on Asian stock markets are modest given weakness on WS. Japanese stocks underperform on the back of a stronger yen despite some additional easing by the BoJ (see currencies). The US Note future remains upwardly oriented suggesting a firm opening for the Bund.

Today, the eco calendar is empty apart from a speech by Fed governor Lacker (hawk, no voter in 2016). He's the first to make public comments on the Fed's decision and a wildcard for trading. Overall, risk sentiment on equity markets (bad?) and developments on commodity markets could be key for trading. US stocks markets fell prey to profit taking yesterday while US Treasuries gained in a sell-the-rumour, buy-the-fact reaction. That move could be extended going into the weekend. Nevertheless, we prefer a sell-on-upticks approach with entry levels around the recent highs (127-10). Longer term, we believe that recent policy action by the ECB (failing to deliver on expected easing) and the Fed (start tightening cycle puts a firm bottom below rate markets. In yield terms, we don't eye a return of the German 10-yr yield below 0.40% and of the US 10-yr yield below 2.1%.



German Bund: Sideways trading range



US Note future (March contract!!): Topside protected by start Fed tightening cycle. Sell-on-upticks near those recent highs (127-10)

Currencies

Dollar gained modestly, but we don't expect big leap forward.

Turn for the worse risk sentiment prevents more dollar gains for now

R2	1,1124	-1d
R1	1,1087	
EUR/USD	1,0862	0,0003
S1	1,0524	
S2	1,0458	

BOJ measures too shy to make difference?

Risk sentiment not outright negative

Dollar gains modestly after FOMC decision, but now profit taking?

Yesterday, the dollar showed some more vigour than immediately after the FOMC meeting Wednesday eve. It appreciated across the board supported by short-term US yields that held near the recent highs. Even so, the gains of the US currency remained moderate, especially as global stocks rallied sharply at least until US traders entered the fray. US equities fell prey to profit taking, also as oil resumed its decline, even approaching the lows (WTI). EUR/USD tested the 108 big figure and closed at 108.26 versus the 109.12 previous close. So the damage of declining equities was modest. USD/JPY went up as well the day after the FOMC lift-off and the subsequent risk-on sentiment and lost only slightly late in the US session when US equities hit the skids. **It closed at 122.56, up from 122.12 previously. Currently trading in the 1.0850 area. USD/JPY near 122.60.** The dollar was overall stronger yesterday reflected in a good advance of the trade weighted dollar (DXY).

Overnight, the BOJ announced some new measures like a new 300bn yen ETF buying programme, focussed on shareholder friendly and profitable firms, a lengthening of the bond maturity of its purchases and changes to the J-Reits programme. More details follow later today. **However, at first view, it doesn't look a substantial change in its policy, as the amounts involved are small. On the decision USD/JPY spiked to 123.56 only to drop immediately and trades now down at 121.96. So, yesterday's break of the USD/JPY 122.25 resistance has not be confirmed.** Asian equities keep up better than Wall Street yesterday, with the exception of Japan. The T-Note trades higher, but commodities go higher too, after steep losses yesterday. So, **no obvious full blown risk-off sentiment at the start of European trading.** EUR/USD trades slightly higher around 1.0850.



EUR/USD: Will EUR/USD drop below 1.08 support?



USD/JPY: Following FOMC, pair tries to regain 122.25 resistance, but no decisive break yet.

Equity profit taking prevents dollar from making decisive gains, leaving technical dollar resistances currently still intact.

Last week, the dollar dropped below important support against the euro and the yen, but the USD currency found its composure ahead of the FOMC decision. The Fed, as expected, confirmed that policy normalisation will be gradual. **The Fed dots suggest 4 additional rate hikes in 2016.** This is no outright predication of what the Fed will do actually, but it was less dovish than we expected. **Short-term interest futures incorporate a second rate hike in spring rather than in the**

EUR/USD technicals remain still neutral as long as above 1.0796

USD/JPY technical couldn't improve yet as 122.25 support not broken sustainably

R2	0,7493	-1d
R1	0,7302	
EUR/GBP	0,7265	0,0009
S1	0,6983	
S2	0,6936	

summer. This gives the dollar some additional interest rate support. For now, the dollar is holding fairly strong, but further sustained USD gains are unlikely if the global equities would run into resistance or fall prey to profit taking. Global market liquidity will also dry up soon as the Christmas holiday and the end-of year approaches fast. Trading might become erratic in nature. **To summarize: the Fed policy is slightly USD positive, but we don't expect a big leap higher of the dollar for now. The downside of the dollar, especially against the euro, is better protected**

From a technical point of view, EUR/USD cleared the 38% retracement from 1.1714 to 1.0524 standing at 1.0979, making the picture again neutral. A previous range bottom/break down area comes in at 1.1087 and finally the 62% retracement from the October high at 1.1124. **If this area would be broken it would make the picture dollar bearish.** However after the Fed decision, this area looks better protected. A sustained decline below 1.0796 would improve the technical picture for the dollar, but an initial test yesterday failed. **USD/JPY dropped below a short-term range bottom in the 122.25 area, turning the short-term picture in this cross rate negative.** Yesterday, the pair broke above the resistance, but couldn't sustain and trades currently again below the level. We will closely watched whether the pair manage to return above 122.25.

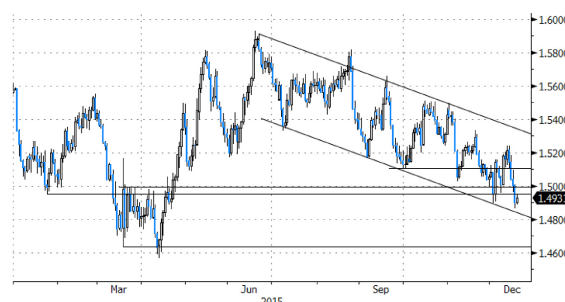
Sterling hardly profits from strong UK retail sales.

On Thursday, there were **very strong November UK retail sales, but prices remained under pressure and CBI orders were also better than expected. Sterling jumped higher for one millisecond but immediately met selling, suggesting that the sterling sentiment remains fragile. EUR/GBP gradually went again to the 0.73 handle, but also taking out this level was one step too far. EUR/GBP settled again around opening levels to close nearly unchanged at 0.7264. Markets apparently maintain the view that the BoE won't join the Fed anytime soon, as price pressures remain subdued..** Cable spiked temporary to the 1.50 area on the retail sales release, but immediately fell back. USD strength prevailed and cable dropped to a new ST low at 1.4865, before closing at 1.4901. The pair currently trades in the 1.4935 area. Overnight, some overall dollar weakness pushed cable to 1.4932.

Today, the UK calendar is empty and so is the EMU one. US eco data are unimportant for trading. Fed Lacker speaks after European closure. The EU discussion on a Brexit is still ongoing with a press release expected at 10:00 CET. **However, it is unlikely that Cameron has an agreement and still less sure that it will benefit sterling.** In this respect, the risk sentiment on equity markets and the commodities will give direction. The latter trade higher following a big drop yesterday. **Technicals don't favour sterling, but EUR/GBP resistance still holds and the bottom of the downchannel in cable too** (see graphs).



EUR/GBP Little changed near the 0.73 big figure



Cable: towards lower end range after FOMC

Calendar

Friday, 18 December		Consensus	Previous
US			
15:45	Markit US Services PMI (Dec P)	55.9	56.1
15:45	Markit US Composite PMI (Dec P)	--	55.9
17:00	Kansas City Fed Manf. Activity (Dec)	--	1
Canada			
14:30	Wholesale Trade Sales MoM (Oct)	0.1%	-0.1%
14:30	CPI NSA MoM/YoY (Nov)	0.1%/1.5%	0.1%/1.0%
14:30	CPI Core MoM/YoY (Nov)	0.0%/2.3%	0.3%/2.1%
Japan			
	BOJ Annual Rise in Monetary Base	A: ¥80t	¥80t
06:30	Nationwide Dept Sales YoY (Nov)	A: -2.7%	4.2%
06:30	Tokyo Dept Store Sales YoY (Nov)	A: 0.2%	7.4%
EMU			
10:00	ECB Current Account SA (Oct)	--	29.4b
10:00	Current Account NSA (Oct)	--	33.1b
France			
08:45	PPI MoM/YoY (Nov)	--/--	0.2%/-2.5%
Italy			
10:00	Hourly Wages MoM/YoY (Nov)	--/--	0.1%/1.2%
10:30	Current Account Balance (Oct)	--	1431m
Belgium			
15:00	Consumer Confidence Index (Dec)	--	-4
Norway			
10:00	Unemployment Rate (Dec)	3.0%	2.9%
Events			
	Japan - Bank of Japan Monetary Policy Statement		
	EMU - EU leaders conclude summit meeting		
02:45	China - MNI December Business Indicator		
19:00	US - Fed's Lacker Gives 2016 Economic Outlook at Charlotte Chamber		
Sunday	Spain - Spanish national elections		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,22	-0,05	US	0,98	-0,03	DOW	17496 17495,84
DE	0,59	-0,08	DE	-0,34	-0,02	NASDAQ	for Exch - NQI #VALUE!
BE	0,92	-0,07	BE	-0,31	-0,01	NIKKEI	18987 18986,80
UK	1,85	-0,10	UK	0,59	-0,03	DAX	10738,12 10738,12
JP	0,28	-0,02	JP	-0,02	-0,01	DJ euro-50	3306 3306,47

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,238 0,003
3y	0,024	1,309	1,196	Euribor-1	-0,20	0,00	Libor-1 USD	0,50 0,50
5y	0,284	1,645	1,465	Euribor-3	-0,13	0,00	Libor-3 USD	0,59 0,59
10y	0,935	2,117	1,885	Euribor-6	-0,04	0,00	Libor-6 USD	0,75 0,75

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0862 0,0003	EUR/JPY	132,29 -0,56		171,8119	1057	37,11
USD/JPY	121,81 -0,53	EUR/GBP	0,7265 0,0009	-1d	-2,41	-10,20	-0,14
GBP/USD	1,4944 -0,0019	EUR/CHF	1,0789 -0,0018				
AUD/USD	0,7145 -0,0035	EUR/SEK	9,2704 -0,01				
USD/CAD	1,3917 -0,0110	EUR/NOK	9,5047 -0,07				

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