



Sunrise

Monday, 15 February 2016

Rates: Correction to go somewhat further?

Friday, core bonds lost ground as risk sentiment improved following stronger US retail sales. Overnight, the Chinese central banker said there was no ground for further yuan depreciation. The US T-Note future trades weaker in a risk-on environment. This suggests that the core bond correction could be extended.

Currencies: Dollar rebounds as global risk-off trade fades

On Friday, the dollar was supported by an improvement in global investor sentiment and by good US retail sales. The US currency remains well bid this morning as Asian markets join the global equity rebound. In Europe, currency traders will look out for details on the possible deal between the EU and UK. Uncertainty on this issue keeps sterling vulnerable.

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 rose 2% on Friday** as sentiment turned risk-on ahead of the long weekend. Financials, materials and energy shares led the rebound. **Asian shares start the week in a positive mood with Japanese stocks gaining 7-8%. Chinese stocks trade** little changed as they re-opened after the Lunar New Year holidays.
- **Japan's economy shrank more than expected in the fourth quarter of last year**, by 0.4% Q/Q while a contraction by 0.2% Q/Q was expected, as consumer spending and exports slumped. The data indicate again that consumer spending remains poor due to slow wage growth.
- **China's trade surplus jumped to a record \$63.29 billion in January as a 11.2% Y/Y decline in exports was offset by an even bigger drop in imports (-18.8% Y/Y)**. Although the readings might have been influenced by the timing of the Lunar New Year holidays, they were far worse than expected.
- **The ECB is in talks with the Italian government about buying bundles of bad loans** as part of its asset-purchase programme and accepting them as collateral from banks in return for cash, the Italian Treasury said.
- **Crude oil prices rallied on Friday, ending a six-day losing streak**, as comments from the UAE oil minister pointed towards potential collaboration between OPEC and non-OPEC producers on production cuts. The Brent closed at \$33.36/barrel and the WTI at \$29.44/barrel.
- Today, **the eco calendar is thin** with only the euro zone trade balance. **US markets closed in observance of President's Day** and ECB's Draghi and Nowotny are scheduled to speak.

Rates

Core bonds correct, as equities and oil rally sharply

Core bonds pretty hard hit by equity/oil rebound

Core bond curves steepen sharply

Peripherals profit from risk-on with Portugal outperformer as new government bows for EU pressure on the budget

	US yield	-1d
2	0,7137	0,0563
5	1,2056	0,0615
10	1,7464	0,0583
30	2,6025	0,0719

	DE yield	-1d
2	-0,5070	0,0120
5	-0,2820	0,0500
10	0,2640	0,0670
30	0,9613	0,0593

Today, US markets closed and eco calendar unattractive

ECB Draghi speaks in parliament

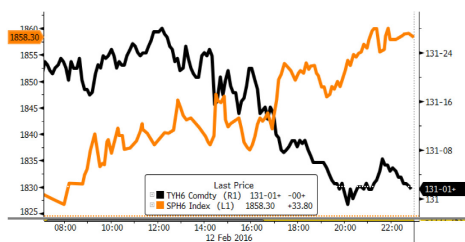
NY Fed Dudley suggests no March rate hike but calls debate on negative rates completely premature

On Friday, global core bonds were hit by profit taking, as equities and oil prices rebounded and the US retail sales surprised on the upside, easing fears that the US economy is rapidly losing ground. Peripheral yield spreads narrowed sharply. The EMU GDP was in line with expectations and thus irrelevant for trading, while the impact of weaker than expected Michigan consumer sentiment was nearly absent, even as LT inflation expectations dropped to a new series low. In a daily perspective, the German yield curve bear steepened with yields 2.1 bps (2-yr) to 7.7 bps (30-yr) higher. The curve movement for US Treasuries was similar with yields between 6.4 bps (2-yr) and 10.6 bps (30-yr) higher. Intraday, core bonds opened weak, but gradually moved a bit higher. The downleg started after the better than expected US retail sales, which convinced investors that the market had run ahead of itself by punishing riskier assets so hard in the weeks before. On intra-EMU bond markets, 10-yr yield spreads versus Germany narrowed sharply by 11-14 bps for Spain/Italy and 13/45 bps for Greece/Portugal. Semi-core yield spreads fell 2 bps. The EU and Portugal agreed on a “plan” B for deficit cuts, but the Portuguese minister of Finance said it won’t be needed to implement it.

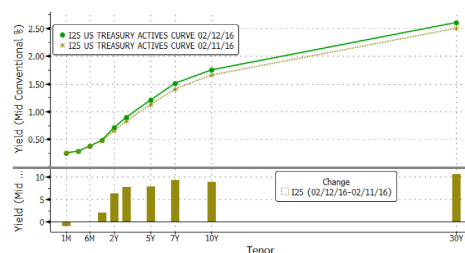
US closed today, while ECB Draghi speaks

With US markets closed in observance of President’s Day, the eco calendar is thin today. ECB President Draghi’s speech before the EU Parliament might be interesting. At the previous ECB meeting, Mario Draghi firmly suggested that the ECB would ease policy further in March. Financial conditions have tightened via a stronger euro and lower equities and oil prices are still lower than in December. In the meantime, the banking sector came under pressure, partially due to the prospects of still lower (negative) rates. So our attention will focus on hints about the composition of the easing package. Less emphasis on a deeper deposit rate cut (max 10 bps?) and more on an extension of the PSPP asset purchase programme?

On Friday, NY Fed president Dudley tried to stop the debate on negative rates saying that it was way too early to discuss them. Policymakers have, if needed other options before considering negative rates. The Fed is aware of what’s going on internationally and would take that into account when it meets March 15-16. (Read: no tightening in March). The inflation outlook has been dimmed.



T-Note future (black) and S&P future (orange) (intraday): Risk-on pushes equities higher and core bonds lower



US yield curve (changes 1 day): Sharp bear steepening

Scheduled supply rather low this week

R2	167	-1d
R1	166,16	
BUND	164,05	-1,5400
S1	163,25	
S2	162,86	

This week's EMU bond supply comes from Germany, Spain and France. On Wednesday, the German Finanzagentur taps the on the run 10-yr Bund (€5B 0.5% Feb2026). On Thursday, 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. Additionally, they intend 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). The auction size still needs to be determined. This week's auctions will be supported by small Belgian (€3B) and Portuguese (€2B) redemptions.

Today: Asian starts the week in risk on mode

Overnight, Japanese equities gain 7% on yen weakening and a generally positive risk sentiment, mirroring US equity strength last Friday. Commodities trade higher with oil keeping Friday's outside gains. Gold drops lower. US Treasuries trade weaker and so do Asian regional bonds, suggesting a weaker Bund opening too. The Chinese PBoC chief said that there was no basis for yuan weakening. The yuan was fixed 0.3% higher versus USD, catching up with dollar losses last week when Chinese markets were closed. Chinese trade figures for January were awful but ignored and suggest yuan depreciation further out. Japanese Q4 GDP fell more than expected, stoking speculation of more stimulus.

Today's eco calendar is empty apart from ECB governor Draghi's speech in European parliament (see above). US markets are closed because of US President's Day. This means that risk sentiment and technical factors will drive trading. Overnight trading thus suggests positive sentiment which is negative for the Bund. **We keep a close eye on Portuguese bonds as well. Of late, they've been a good proxy for risk sentiment. Portugal suffers from a weakening political and economic outlook.** Portugal also has only one investment grade rating, from DBRS. If DBRS cuts the rating, Portuguese bonds will no longer be eligible for ECB's PSPP programme and lose immense support.

Technically, the end of last week's action on core bond markets suggests a short term trend reversal signal, shrugging off overbought conditions and capping the upside. We'll need confirmation this week though.



German Bund: no longer overbought. Short-term trend reversal?



US Note future: similar technical signal as Bund

Currencies

Dollar rebounds as global sentiment improves

Dollar rebounds as sentiment on risk improves and US retail sales surprise on the upside.

On Friday, global market tensions eased. The move was first visible in the equity markets. However, gradually the risk-on sentiment also filtered through into commodity and the interest rate markets. Initially, the gains of the dollar were modest. The rebound accelerated after better than expected USD retail sales. EUR/USD closed the session at 1.1256 (from 1.1323 on Thursday) The gains in USD/JPY were even more substantial. USD/JPY closed the session at 113.25 (from 121.42).

Asian markets start the week in risk-on modus even as Japanese GDP and China trade data disappoint

This morning, the constructive market momentum persists. Mainland China indices reopened after the Lunar New Year holidays with only modest losses (given the sell-off on global markets last week). Chinese trade data (were weaker than expected, but are ignored. The PBOC set the yuan fixing 0.3% stronger (at least partially due to a weaker dollar during the holiday period). The CNY rebounded and the gap between the CNY and the fixing narrowed. The off-shore CNH initially weakened, but finally rebounded to trade currently stronger in the 6.4875 area. So, for now, the market doesn't challenge attempts from the PBOC to stabilize the currency. **Japanese Q4 GDP disappointed (see headlines)**, but were ignored. The major Japanese equity indices rebound 7%-8% supported by a weaker yen. USD/JPY rebounded further and trades currently in the 113.95 area. The dollar trades also slightly stronger against the euro with EUR/USD currently in the 1.1215 area. The rebound in oil and commodities also benefits the Aussie dollar (0.7165).

PBOC advocates yuan stability

R2	1,1495	-1d
R1	1,1376	
EUR/USD	1,12275	-0,0082
S1	1,106	
S2	1,081	



EUR/USD: rebounds running into resistance as USD tries a comeback-



USD/JPY: a risk-on rebound

Few eco data in Europe

USD markets are close

Ti *We start the week with a cautious positive bias for the USD*

Today, there are only second tier eco data in Europe. **US markets are closed for presidents day.** The continuation of the Asian risk-on trade suggests also a positive start for European equities. **This should be modestly supportive for the dollar.** The global uncertainty on China and on the global economy won't disappear at once. Even so, the current pause in the sell-off of riskier assets might push up US bond yields and help the dollar to stay away from the recent lows against the yen and the euro. **Later this week**, the January FOMC Minutes (Wednesday) and the US CPI are interesting. In Europe, the focus will be on the **negotiations between the UK and the EU on the role of the UK in the EU.** In case of open tensions in the run-up to the EU summit, this might be a negative for European (equity) markets. We assume that this kind of tensions are

negative for the euro. In the context, we start the week with a cautiously USD positive bias. For EUR/USD, the 1.1060/70 support area is the first target.

From a technical point of view, EUR/USD broke above the 1.1060/1.1124 resistance area (15 Dec top: 62% retracement). This was USD negative. The short-term correction high stands at 1.1376. Next important resistance kicks in at 1.1495. The jury is still out, but we are looking for a topping out in EUR/USD.

USD/JPY dropped below the key 115.98 pre-BOJ low. Japanese officials warned on potential action and this helped to put a short-term floor. Even so, the pair remains very vulnerable if global tensions resurface. **We doubt that the time is ripe for a sustained USD/JPY rebound. Any rally might run into resistance quite soon. The 115.98 previous low is a first technical reference.**

Sterling rebounds, but Brexit debate lingers

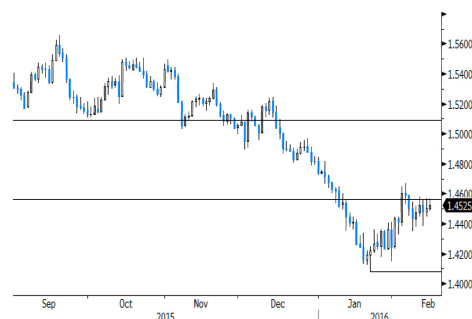
On Friday, sterling rebounded in line with the improvement in global sentiment. The move was in the first place visible in EUR/GBP. The strength of the rebound was a bit remarkable given the upcoming EU Summit on Brexit this week. So, other technical factors might have been at work. EUR/GBP dropped to the mid 0.77 area and closed the session at 0.7762 (from 0.7822). Cable initially rebounded to the 1.4570 area, but lost some ground as the dollar rebounded later in the session. The pair still closed the session in positive territory at 1.4503 (from 1.4477).

Overnight, the UK Rightmove House prices were good at 2.7% M/M and 7.3% Y/Y. Sterling is gaining slightly further ground against the euro and the dollar this morning, but this is probably due to the overall positive sentiment on risk. Today and later this week, the Brexit debate might come to the forefront. There will also be some important UK eco data, including CPI on Tuesday, labour market data on Wednesday and retail sales on Friday. It might still be a bumpy road for the UK and the EU to reach an agreement acceptable for all parties. In this context, we stay cautious on sterling, even if global sentiment on risk is constructive at the start of the week. **The medium term technical picture of sterling against the euro remains negative as EUR/GBP broke above the 0.7493 Oct top. Next big resistance stands at EUR/GBP 0.7898.** A return below EUR/GBP 0.74 would be a first indication that sterling enters calmer waters.

R2	0,8066	-1d
R1	0,7898	
EUR/GBP	0,7727	-0,0086
S1	0,7661	
S2	0,7526	



EUR/GBP; sterling rebounds due to risk-on



GBP/USD: holding a tight consolidation range

Calendar

Monday, 15 February		Consensus	Previous
Japan			
00:50	GDP SA QoQ (4Q P)	A: -0.4%	0.3%
00:50	GDP Annualized SA QoQ (4Q P)	A: -1.4%	1.0%
00:50	GDP Deflator YoY (4Q P)	A: 1.5%	1.8%
00:50	GDP Private Consumption QoQ (4Q P)	A: -0.8%	0.4%
00:50	GDP Business Spending QoQ (4Q P)	A: 1.4%	0.6%
05:30	Industrial Production MoM/YoY (Dec F)	A: -1.7%/-1.9%	-1.4%/-1.6%
05:30	Capacity Utilization MoM (Dec)	A: -1.0%	-0.1%
05:30	Tertiary Industry Index MoM (Dec)	A: -0.6%	-0.8%
China			
	Trade Balance (Jan)	A: \$63.29b	\$60.09b
	Exports YoY/YoY CNY (Jan)	A:-11.2%/-6.6%	-1.4%/2.3%
	Imports YoY/YoY CNY (Jan)	A:-18.8%/-14.4%	-7.6%/-4.0%
	Trade Balance CNY (Jan)	406.2b	382.05b
UK			
01:01	Rightmove House Prices MoM/YoY (Feb)	A: 2.9%/ 7.3%	0.5%/6.5%
EMU			
11:00	Trade Balance SA (Dec)	22.0b	22.7b
11:00	Trade Balance NSA (Dec)	27.5b	23.6b
Italy			
10:30	General Government Debt (Dec)	--	2211.9b
Belgium			
15:00	Trade Balance (Dec)	--	408.2m
Events			
15:00	EMU - ECB's Draghi Speaks in EU Parliament Committee in Brussels		
US Markets are closed due to President's Day			

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,75	0,06	US	0,71	0,06	DOW	15974 15973,84
DE	0,26	0,07	DE	-0,51	0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,69	0,05	BE	-0,40	0,03	NIKKEI	16023 16022,58
UK	1,42	0,10	UK	0,36	0,08	DAX	8967,51 8967,51
JP	0,09	0,01	JP	-0,17	0,03	DJ euro-50	2756 2756,16

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,095	0,876	0,816	Euribor-1	-0,24	0,00	Eonia EUR	-0,24	-0,001
5y	0,085	1,133	0,984	Euribor-3	-0,18	0,00	Libor-1 USD	0,51	0,51
10y	0,650	1,592	1,416	Euribor-6	-0,11	0,00	Libor-3 USD	0,59	0,59
							Libor-6 USD	0,73	0,73

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,12275 -0,0085	EUR/JPY	127,8 1,25		155,0102	1218,2	33,31
USD/JPY	113,85 1,95	EUR/GBP	0,7727 -0,0088	-1d	-1,39	-25,55	1,84
GBP/USD	1,4525 0,0054	EUR/CHF	1,0997 -0,0010				
AUD/USD	0,7151 0,0057	EUR/SEK	9,4495 -0,03				
USD/CAD	1,3811 -0,0100	EUR/NOK	9,6287 -0,04				

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