



Sunrise

Monday, 25 January 2016

Rates: Core bonds may stay under some modest downside pressure

On Friday, core bonds lost moderate ground on revival of equities and oil prices. Overnight, this ST trend continued. With a thin calendar, we suspect that bonds may remain under some modest pressure. Later on, FOMC (Wednesday) and BOJ (Friday) will be the focus, while we focus on political developments in Spain and EU (Schengen).

Currencies: dollar gains remain limited despite risk-on rebound

On Friday, the dollar succeeded limited gains against the euro and the yen as sentiment on risk remained positive. Especially the gains against the euro were modest despite the aggressive easing comments from Draghi on Thursday. Dollar investors might stay cautious ahead of the FOMC and BOJ decisions later this week.

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 for a second straight session on Friday.** The S&P jumped more than 2% supported by a 10% rebound in the oil price. This morning, **Asian shares** extend their rebound. Chinese shares however limited their gains, trading broadly unchanged currently.
- **Marcelo Rebelo de Sousa**, a law professor and former leader of the Social Democrats, **was elected as new president of Portugal** yesterday, in a victory for the centre-right opposition.
- After soaring 10% on Friday, **crude oil prices extend their rebound this morning.** Both the Brent and WTI are currently hovering around \$32.75/barrel. Commodity currencies as the RUB, NOK, CAD profited too.
- **Japanese exports dropped the most in more than three years in December** as a slowdown in China and emerging markets takes its toll on the export-reliant economy. BOJ Governor **Kuroda** said during the weekend **he would scrutinise various factors**, including the effect of global market turbulence on inflation expectations, **in deciding whether additional easing was necessary**, but added that the underlying price trend is not deteriorating.
- **Rating agency Standard & Poor's upgraded Greece's credit rating by one notch to B-** saying the country seems to be broadly complying with the terms of its latest international bailout. The outlook remains stable.
- Today, the **eco calendar** contains the **German IFO business climate indicator**. ECB President **Draghi** is scheduled to speak and EU minister talk on saving Schengen.
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Rates

Profit taking on stronger equities and higher oil prices

Core bonds lose only modest ground as equities and oil rally sharply

Modest outperformance peripherals

	US yield	-1d
2	0,8854	0,0367
5	1,4958	0,0277
10	2,0606	0,0104
30	2,8246	0,0030

	DE yield	-1d
2	-0,4440	0,0050
5	-0,2179	0,0087
10	0,4870	0,0360
30	1,2747	0,0384

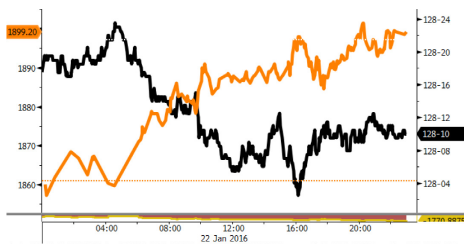
Thin calendar with IFO risks on the downside

EU debates on Schengen

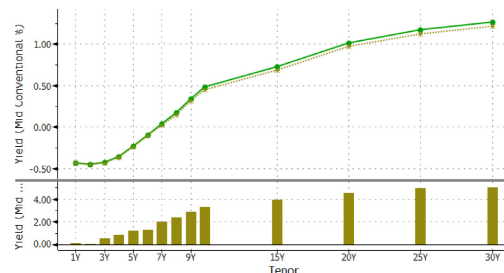
FOMC and BOJ meet later this week

Global core bonds fell prey to modest profit taking on the back of equity strength and the comeback in oil/commodity prices. Some technical profit taking ahead of the weekend played a role as well following last week's rally with a failed test of the contract high (161.71). January EMU PMI's readings disappointed, but couldn't lift Bunds despite the dovish ECB press conference earlier last week. ECB Draghi repeated that the ECB was ready, determined and willing to act. The bond sell-off stopped around noon and was followed by sideways to slightly higher price action during the US session. **The German yield curve bear steepened with yields 0.1 bp (2-yr) to 5 bps (30-yr) higher. The front end of the European yield curves (up to 5-yr) was better protected due to Draghi's pre-announcement of additional easing in March. Changes on the US yield curve varied between +1.3 bps (30-yr) and +3.9 bps (5-yr). The shorter end underperformed as the risk-on sentiment meant that chances of more tightening in the US slightly increased.** On intra-EMU bond markets, 10-yr yield spreads versus Germany narrowed slightly with Portugal (-9 bps) and Greece (-85 bps) outperforming. The prospect of an expansion/extension of the QE-programme underpins peripherals, while Wednesday's huge sell-off might have been considered as overdone.

The **German IFO business climate indicator** is the only release of interest today. ECB President **Draghi** and ECB's Lautenschlaeger take the stage after market closure. We don't expect new comments from them on policy. After already a limited drop in December, the **German IFO business climate indicator** is forecast to have weakened slightly further at the start of the new year. A decline from 108.7 to 108.4 is forecast, but **we see risks for a weaker outcome**, especially after Friday's disappointing (manufacturing) PMI. Both the current assessment and expectations sub-index are forecast to have dropped. Attention should also go to the **EU interior ministers meeting on Schengen**. Various high level EU authorities warned for severe negative repercussions for the EU if no strong plan on immigration is accepted in 6 to 8 weeks time. Negatives are both coming from its impact on Brexit and economic costs of borders on the free flow of persons and goods. Later this week, **the FOMC (Wednesday) and the BOJ (Friday) meet**. The former will stay put, but markets will look whether the statement is more dovish than in December, which should be the case. The call on the BOJ is a closer one. There was some pressure from the government to ease policy further and the recent turmoil, yen appreciation, low oil prices, pre-announcement ECB easing and deteriorating growth prospects won't have gone unnoticed either. Central banks should remain dovish.



US Note future (black) and S&P future (orange): Nice (2%) gains equities & oil prices have only modest negative impact on T-Note future



German yield curve (one day) bear steepens. Short end protected by Draghi's pre-announcement March easing. Rise longer end modest.

R2	162	-1d
R1	161,94	
BUND	161,27	-0,3500
S1	160,38	
S2	156,4	

Thin EMU bond supply; US refinancing operation

This week's scheduled EMU bond issuance comes from **Italy and Germany**. Tomorrow, the Italian treasury holds inflation-linked and zero coupon auctions. On Wednesday, the German Finanzagentur taps the on the run 30-yr Bund (€1B 2.5% Aug2046). On Thursday, there's a regular Italian BTP auction. The lines on offer still need to be announced. This week's auctions won't be supported by bond redemptions. **The US Treasury holds its end-of-month refinancing operation**. They start tomorrow with a \$26B 2-yr Note auction, followed by \$35B 5-yr Note & \$15B 2-yr FRN auctions on Wednesday and a \$29B 7-yr Note auction on Thursday.

Today: More profit taking if sentiment improves

Overnight, Asian equity markets trade around 1% higher building further on positive risk sentiment at the end of last week. The oil price is marginally higher around \$32.75/barrel for Brent and the US Note future slightly lower. S&P upgraded the Greek rating to B- from CCC+ (outlook stable) on the back of stronger than expected growth and progress under the financial support program (should open discussions on debt relief), but we don't expect much impact on illiquid Greek bond markets.

Today's eco calendar contains German Ifo. Risks are on the downside of expectations. Such outcome would further boost ECB easing expectations after last week's dovish meeting and is positive for core bonds. **However, if risk sentiment on equity markets improves and the comeback of oil prices continues, we think the Bund/US Note future might be prone to profit taking given last week's failed test of resistance levels**. In the US, trading volumes might be lower because of potential commuting difficulties on the East coast caused by blizzard Jonas and ahead of Wednesday's FOMC.

We hold our view that there is little value in the Bund/US Note future when 10-yr yields drop respectively below 0.50% and 2%. The front end of European yield curves is expected to remain near record low levels as we expect at least a 10 bps deposit rate cut at the March ECB meeting. Therefore, **a potential corrective move could trigger bear steepening of the European curves**.



German Bund: failed test of contract high on dovish Draghi. More room for profit taking going if risk sentiment improves



US Note future: higher oil prices pull Treasuries away from resistance levels

Currencies

USD-gains stay modest despite risk-on rebound

Dollar gains modestly as risk-on rebound continued

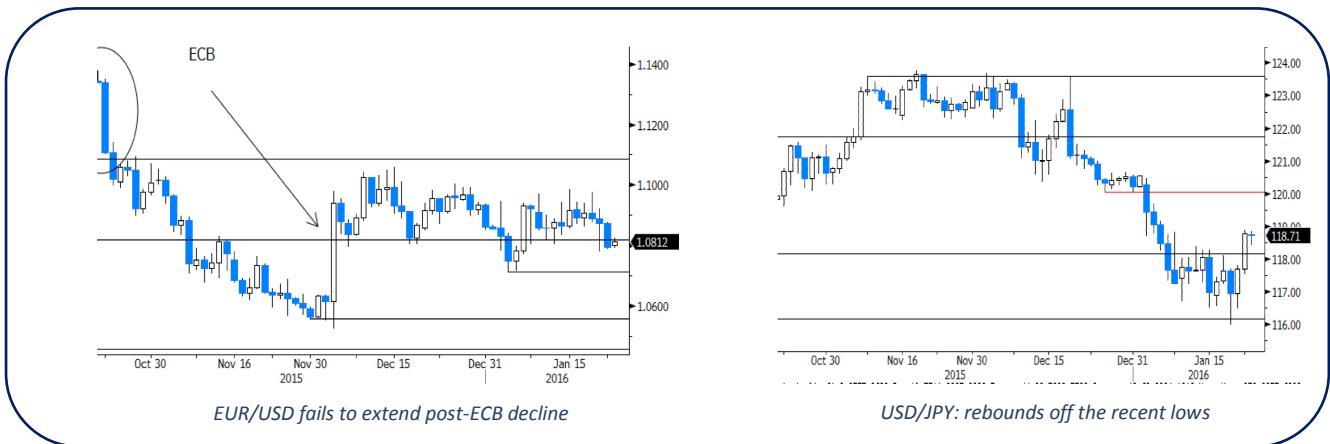
R2	1,106	-1d
R1	1,0985	
EUR/USD	1,0811	-0,0023
S1	1,0711	
S2	1,0524	

Asian equities extend rebound

CNH and HKD extend gains

On Friday, the dollar initially gained some further ground in Asia, but the rebound slowed in Europe. The EMU PMI's were disappointing, but didn't hurt the euro. Sentiment stayed risk on and oil rebounded further, but the dollar gains were meagre. The risk-on rebound continued in US trading with oil returning to the \$32 p/b level. The dollar finally eked out some additional gains. USD/JPY closed the day at 118.78 (from 117.70 on Thursday). EUR/USD drifted south to close the day at 1.0796 (from 1.0874). Still, Thursday's post ECB low (1.0778) was left intact.

This morning, Asian equities show moderate gains. Brent oil is holding close to the recent top (\$ 32 p/b). The PBOC continues last week tactics to stabilize the yuan. The bank set the fixing of the yuan marginally stronger. This weekend, Chinese officials stepped up verbal interventions and reiterated that the country doesn't want to devalue its currency. The off-shore yuan trades slightly stronger at 6.6073. The Hong Kong dollar extends last week's rebound and trades at 7.7885. Despite the ongoing risk-on sentiment, the dollar trades marginally weaker against the yen (118.70) and the euro (EUR/USD 1.0815).



Soft Ifo to have only limited impact on EUR/USD trading

Dollar rebound to slow ahead of the Fed policy announcement on Wednesday?

Today, the January German IFO business climate indicator is the only release of interest. It is forecast to have weakened slightly further (from 108.7 to 108.4). We see risks for a weaker outcome, especially after Friday's disappointing PMI. A weak figure is slightly euro negative, but similar to Friday's EMU PMI's, the reaction should be limited. The focus for USD trading is on global developments and on the policy decisions of the Fed (Wednesday) and the BOJ (Friday). The former will stay put, but markets will look whether the statement is more dovish than in December, which should be the case. BOJ's Kuroda in Davos downplayed the impact of the recent turmoil. Still, the call on the BOJ is a closer one. The recent turmoil, appreciation of the yen, low oil prices, the pre-announcement easing by ECB and deteriorating growth prospects all raised the pressure on the BOJ to add stimulus. Still we expect to BOJ to keep its wait-and-see approach.

In a day-to-day perspective, more substantial USD gains might be difficult. The risk-on rally might slow ahead of the FOMC decision, which might be softer.

So, the dollar won't get much additional interest rate support. Oil remains a wildcard for global sentiment on risk and for USD trading.

From a technical point of view, EUR/USD failed to regain important resistances at 1.1087 (breakdown) and 1.1124 (62% retracement from the October high). Earlier this month, EUR/USD failed also to sustain below 1.0796 support (07 Dec low). This area was again tested yesterday. Next support is at 1.0711/1.0650 (correction low/76% retracement off 1.0524/1.1060) and at 1.0524. On the topside, 1.0985/1.1004 (reaction top) is a first reference. This level was left intact even as sentiment was outright risk-off before the ECB meeting. Next resistance comes in at 1.1060/1.1124 (15 Dec top/62% retracement). We expect this resistance to be strong and difficult to break. After the ECB announcement, we look to sell EUR/USD on upticks for return action lower in the range. **The picture for USD/JPY remains negative below 120, but the pair tries to build a bottom.** Still, we think that a sustained return above 120 will be difficult.

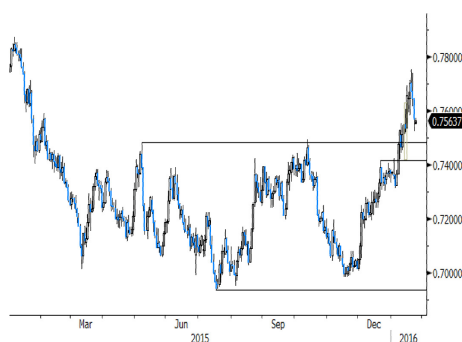
R2	0,7755	-1d
R1	0,7715	
EUR/GBP	0,7556	-0,0052
S1	0,7525	
S2	0,7313	

Sterling rebound to slow?

On Friday, the ongoing post-ECB rebound and the comeback of oil supported sterling further. **EUR/GBP dropped to the 0.76 area ahead of the publication of the Dec. UK retail sales data.** These were much weaker than expected, suggesting weaker Q4 growth. Even so, sterling ignored the report and even touched new highs, driven by a constructive market sentiment. EUR/GBP closed the session at 0.7571 (from 0.7647). Cable closed at 1.4265 (from 1.4221). **So, sterling enjoyed a corrective rebound, but driven by non-UK factors.**

Today, the UK January CBI trends orders will be published. A modest further decline from -7 to -10 is expected. The sterling reaction to the CBI orders is mostly limited. Even so, sterling probably won't continue to ignore poor UK data the way it did last week. In this respect, the Q4 GDP estimate (Thursday) might be important. A further slowdown might weigh on sterling. Last week's sterling rebound was driven by the **global factors. If the risk-on rebound (equities/oil) slows, sterling might run into resistance. We also keep an eye at the meeting of EU interior ministers on Schengen as it might affect the Brexit debate. In a day-to-day perspective, Friday's highs against the euro/dollar might be a first tough resistance.**

In a longer term perspective, uncertainty on Brexit and global negative risk sentiment are important drivers for sterling weakness. As long as these issues aren't solved, a sustained sterling rebound is unlikely. **The medium term technical picture of sterling against the euro remains negative as EUR/GBP broke above the 0.7493 Oct top. Next resistance stands at 0.7875.** A return below 0.74 would be a first indication that sterling enters calmer waters.



EUR/GBP: sterling ignored poor UK data



Cable: sell-off taking a breather

Calendar

Monday, 25 January		Consensus	Previous
US			
15:30	Dallas Fed Manf. Activity (Jan)	-15.0	-20.1
Japan			
00:50	Trade Balance (Dec)	A: ¥140.2b	-¥379.7b
00:50	Trade Balance Adjusted (Dec)	A: ¥36.6b	-¥3.3b
00:50	Exports YoY (Dec)	A: -8.0	-3.3
00:50	Imports YoY (Dec)	A: -18.0	-10.2
UK			
12:00	CBI Industrial Trends Survey - Total Orders (Jan)	-10	-7
12:00	CBI Quarterly Business Optimism (Q1)	--	-12
Germany			
10:00	IFO Business Climate (Jan)	108.4	108.7
10:00	IFO Current Assessment (Jan)	112.8	112.8
10:00	IFO Expectations (Jan)	104.2	104.7
Italy			
10:00	Industrial Sales MoM/WDA YoY (Nov)	--/--	2.0%/1.6%
10:00	Industrial Orders MoM/NSA YoY (Nov)	--/--	4.6%/2.2%
11:00	Retail Sales MoM/YoY (Nov)	--/--	-0.3%/1.8%
Belgium			
15:00	Business Confidence (Jan)	-2.0	-1.4
Spain			
09:00	PPI MoM/YoY (Dec)	--/--	-0.2%/-2.6%
Events			
	Halliburton (bef mkt), Mc Donalds (bef mkt) Announce Q4 Earnings		
9:00	EU - EU Interior Ministers Hold Meeting on Migration in Amsterdam		
18:30	ECB's Lautenschlaeger speaks at EU Parliament on "AnaCredit"		
19:00	ECB President Draghi Speaks at Deutsche Börse New Year's Reception		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,06	0,01	US	0,89	0,04	DOW	16094 16093,51
DE	0,49	0,04	DE	-0,44	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,78	0,01	BE	-0,38	0,01	NIKKEI	17111 17110,91
UK	1,72	0,04	UK	0,43	0,02	DAX	9764,88 9764,88
JP	0,23	0,00	JP	-0,01	0,00	DJ euro-50	3023 3023,21

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,241 -0,001
3y	-0,083	1,113	1,027	Euribor-1	-0,23	0,00	Libor-1 USD	0,51 0,51
5y	0,153	1,417	1,295	Euribor-3	-0,15	0,00	Libor-3 USD	0,59 0,59
10y	0,794	1,904	1,729	Euribor-6	-0,07	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0811	-0,0023	EUR/JPY	128,39	0,46		159,1402	1100,81	32,74
USD/JPY	118,775	0,65	EUR/GBP	0,7556	-0,0052	-1d	2,82	2,86	2,08
GBP/USD	1,4299	0,0066	EUR/CHF	1,0964	0,0034				
AUD/USD	0,7021	-0,0006	EUR/SEK	9,2655	-0,01				
USD/CAD	1,4140	-0,0105	EUR/NOK	9,4308	-0,07				

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