



Sunrise

Friday, 29 January 2016

Rates: German 10-yr yield below 0.42%; important signal if confirmed

The German 10-yr yield closed below the 0.42% support yesterday. If the break is confirmed today, it paves the way towards the all-time low at 0.05%. This year's dovish turn of global central banks continues this morning with the BoJ implementing negative interest rates. That will result in another strong opening of the Bund.

Currencies: USD/JPY jumps as BOJ applies negative policy rate

Trading in the major USD cross rate was choppy and erratic in nature yesterday as signals from other markets were confusing. This morning, the dollar jumped higher against the yen as the BOJ cut its policy rate into negative territory. The gains of the dollar against the euro are modest. Later today, the focus turns to the EMU CPI and the US GDP.

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 rebounded yesterday, supported by a rebound in the oil price, but a selloff in the health care sector capped the gains. This morning, **Asian shares show broad-based gains** after the BOJ surprised markets by introducing negative interest rates.

- **The Bank of Japan surprised markets this morning by slashing its interest rates further, into negative territory (from 0.1% to -0.1%).** The BOJ added that it will cut interest rates further into negative territory if judged necessary. The yen weakened sharply this morning with USD/JPY jumping above 120.
- After months of wrangling, **Germany reached a deal to reduce inflows to the country**, by barring many refugees in the country from bringing their families for at least one year, in a tough policy package approved by Merkel's coalition.
- **German economic output probably increased only slightly from October to December** due to weak industrial production. The Finance Ministry said this morning that rising orders suggest that output would pick up in the coming months. German retail sales however disappointed in December, falling by -0.2% m/m, while a limited increase was expected.
- **French economic growth slowed at the end of last year, from 0.3% Q/Q to 0.2% Q/Q**, as terrorist attacks kept tourists away and discouraged consumers from spending. The outcome was in line with expectations.
- Today, the **eco calendar is well-filled**, both in the US and euro zone with the first **estimate of euro zone HICP inflation** for January, the euro zone M3 money supply and credit growth data, **US Q4 GDP**, the Chicago PMI, US employment cost index and final reading of Michigan consumer confidence.

Rates

BOJ's negative rates supports bond sentiment

Core bonds gain ground despite higher oil prices and positive US equities.

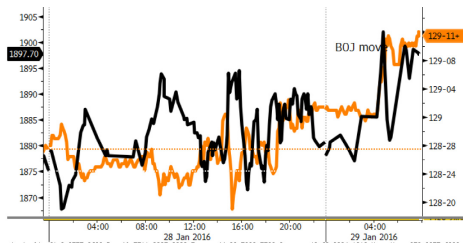
Peripheral spreads stabilize

	US yield	-1d
2	0,7895	-0,0475
5	1,3539	-0,0731
10	1,9469	-0,0576
30	2,77	-0,0333

	DE yield	-1d
2	-0,4440	-0,0060
5	-0,2718	-0,0248
10	0,4030	-0,0290
30	1,1265	-0,0389

Yesterday, global core bonds had a rollercoaster ride that ended with modest (US) to moderate (Bunds) gains. Most (Bund) to all (US Note future) initial gains on equity weakness and horrendous US durable orders were erased by a short squeeze in the oil market. However, the denial of possible talks between Russia and OPEC sent oil prices again lower, giving core bonds renewed space to rise very gradually. Later on, a strong US 7-yr Note future positively affected US Treasuries amid strong US equities. The German 10-yr Bund yield reached new recent lows and broke through the final strong support (0.42%) before the all-time low of 0.05%. The 7-yr yield slid further in negative territory. In a daily perspective, the German yield curve bull flattened with yields down between 0.6 and 5 bps (30-yr). The US yield curve shifted slightly lower with yields down between 1.6 and 2.1 bps. On intra-EMU bond markets, 10-yr yield spreads versus Germany widened up to 7 bps with Greece underperforming (+17 bps).

The BOJ eased its policy further and surprisingly cut its deposit rate to -0.10%, but only for a small part of the bank reserves (details cf. FX part). The BOJ governor said the BOJ could still go further if needed. The BOJ prolonged also the time-frame to reach 2% inflation objective to end 2017. Following the ECB pre-announcement last week and the dovish FOMC meeting, the BOJ completes the picture. Central banks react to the signs of equity and commodity turmoil, the risks for further too low inflation and the risks on global slowdown. That's good news for the bonds worldwide, even as yields are already very low.



US Note future (orange) and S&P future (black): US Treasuries and US equities higher in rollercoaster ride. This morning, BOJ move supports equities and bonds.



German 10-year yield drops below previous bottoms and below 68% retracement, which if confirmed today, may trigger a down-leg towards 0.05% all-time low.

Well filled eco calendar

In the fourth quarter, **US GDP is expected to have slowed further** following already a significant slowdown in growth in the third quarter. The consensus is looking for an annualized growth figure of 0.8% Q/Q, down from 2.0% Q/Qa in Q3. Growth in personal consumption is forecast to have eased, while net-exports, inventories and non-residential investments probably contracted at the end of last year. Residential investments, on the contrary, are forecast to have picked up further, although their contribution to growth will be limited, while government expenditures will probably be close to flat. Overall, **we believe that the consensus looks fair**. The **Employment Cost Index** is expected to have increased by 0.6% Q/Q, the same as in Q3.

Weak US Q4 GDP

ECI, Chicago PMI & Michigan consumer sentiment worth looking at

EMU HICP to pick up, but only for one month.

The Chicago PMI is estimated to reverse part of last month's plunge, while the final reading of Michigan consumer confidence for this month is expected to be slightly weaker than the first estimate. In the **euro area, inflation** is expected to have picked up further at the start of the year. HICP inflation is forecast to have increased from 0.2% Y/Y to 0.4% Y/Y, due to positive base effects. **We believe that an even bigger uptick is not excluded.** Nevertheless, after this month euro zone HICP inflation is forecast to trend lower again due to negative base effects and the renewed drop in oil prices. Core inflation is expected unchanged at 0.9% Y/Y. Also here we see risks **for an upward surprise. M3** money supply will be interesting too, especially the lending data to see whether the recent improvement continued.

Break below final support GE 10y yield confirmed?

R2	163	-1d
R1	162,72	
BUND	162,46	0,2100
S1	160,38	
S2	156,4	

Overnight, Asian equity markets trade positive with Japan outperforming following the unexpected easing by the BoJ (see currencies). The US Note future surged higher suggesting a stronger opening for the Bund as well.

Today's eco calendar heats up with EMU CPI, US Q4 GDP and Chicago PMI. Risks are on the upside of expectations for EMU CPI which is a negative for core bonds. Rising oil prices and overbought conditions (both Bund and US Note future) also warrant some profit taking on this month's rally. **However, overall sentiment remains positive on bond markets.** The dovish turn of global central banks (ECB, BoE, BoJ and Fed) pulled yields lower. End-of-month extension buying and the end of the US refinancing operation are also elements that could be at play today. **So overall, we have no strong view for today's trading given this complex of potential influences.**

Technically, the German 10-yr yield closed below final support (0.42%) yesterday. If confirmed today, that would open the way for a complete retracement towards the all-time low at 0.05%. The US 10-yr yield dropped below the 2% mark, heading for a test of support around 1.9%.



German Bund: last week's dovish ECB gives Bund another boost



US Note future: Heading for test of 129-18+ cycle high

Currencies

Yesterday, the dollar traded erratic

R2	1,106	-1d
R1	1,0985	
EUR/USD	1,0909	0,0029
S1	1,0711	
S2	1,0524	

Asian equities rebound on BOJ decision to apply negative policy rate.

Dollar rebounds

Busy eco calendar today.

Expect no big gain for the dollar in case of upward surprises

USD/JPY jumps north of 120 on negative BOJ-rate

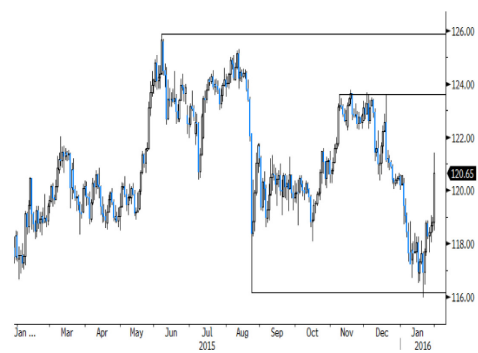
On Thursday, trading on global markets was choppy, as the Fed failed to give a clear guidance. A further rise in the oil price combined with volatile equities provided a mixed picture for interest rate markets and for currencies. In the end, the dollar lost slightly ground against the euro with EUR/USD closing the session at 1.0940 (from 1.0893 on Wednesday). USD/JPY held in the high 118 area and ended the day at 118.82 (from 118.68). Investors were reluctant to be yen long ahead of BOJ policy decision.

This morning, the focus is on Japan. The BOJ surprised friend and foe as it decided to apply a negative deposit rate on some bank reserves. It added that further interest rate cut were possible if negative. The Bank now expects that it will only reach its inflation target by fiscal H2 2017 (early 2018). At the same time, it maintained its target to expand the monetary base at an annual rate of JPY 80 trillion. Japanese markets initially reacted very volatile. An initial sharp rise of Japanese equities was undone, but a new up-leg occurred later in the session. Investors were probably uncertain on the impact of the new measure as the BOJ will apply its policy rate in a complex 3 layer system. Even so, the Nikkei closed 2.8% higher. USD/JPY jumped temporary north of 121, but trades currently in the 120.50 area. Chinese equities markets also gain about 3%. Gains on other Asian markets are much more moderate gains. Oil trades slightly stronger with Brent holding north of \$34 p/b. The dollar trades also slightly stronger against the euro. EUR/USD is drifting back to the 1.0905 area.

Today, the calendar is well filled. In Europe, the focus is on the January EMU CPI. We see upsides risks (expected at 0.4% Y/Y for the headline and 0.9% Y/Y for the core). However, after Draghi's commitment and lower oil prices, we don't expect an upward surprise to have a big negative impact on the euro. In the US, the employment cost index, the first estimate of the Q4 GDP, the Chicago PMI and final Michigan confidence will be published. The consensus for GDP are reasonable. In theory, stronger US data could be slightly supportive for the dollar. However, one shouldn't expect USD investors to become really enthusiastic if the GDP beats a low consensus estimate. So, the focus for USD trading will probably be on the impact of the BOJ decision on global markets.



EUR/USD cautiously higher within sideways range



USD/JPY returns north of 120 on BOJ decision

In a first reaction, the BOJ policy step supports risky assets and the dollar. This pattern might continue at the start of the European trading session. Question is how long this risk-on reaction and its positive impact on the dollar will last. The BOJ action was a surprise and might weigh on the yen short-term, it is no game-changer for global FX trading. In a day-to-day perspective, EUR/USD might ceded some ground after the recent rebound. However, we expect EUR/USD to hold within recent ranges.

From a technical point of view, EUR/USD failed also to sustain below 1.0796 support (07 Dec low) earlier this month. This area was again tested at the end of last week/this week, but a break didn't occur. 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 difficult to break. We look to sell EUR/USD on upticks for return action lower in the range. **The picture for USD/JPY improved as the pair rebounded above 120 this morning in the wake of the BOJ policy meeting; Even so, we are reluctant to position for further sustained USD/JPY gains.**

Sterling rebounds

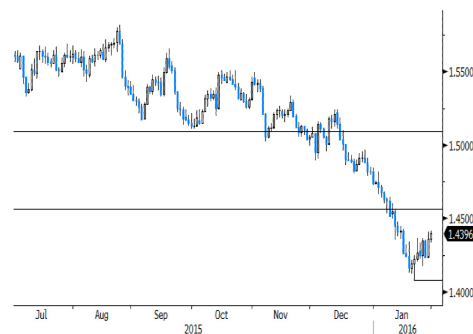
Yesterday, choppy trading conditions in the likes of EUR/USD also filtered through in sterling trading. A decent UK Q4 GDP growth also left its traces. EUR/GBP jumped higher in line with EUR/USD early in European dealings and touched an intraday top in the 0.7660 area. The UK Q4 GDP was reported at 0.5% Q/Q and 1.9% Y/Y. The figure was in line with expectations, but (currency) markets apparently feared a weaker report. Sterling rebounded both against the euro and the dollar. EUR/GBP closed the session at 0.7618. Cable also rebounded off the recent low and closed the session at 1.4362. **Oil holds near the short-term highs which is a slightly positive for sterling. .**

Overnight, the GfK consumer confidence was stronger than expected. Sterling remains well bid, but this is probably due the global positive sentiment in the wake of the BOJ policy decision. Later today, there are no important eco data in the UK. Day-to-day sentiment on sterling improved this week and the technical rebound might continue today if global sentiment remains positive. However, long term issues for sterling are not out of the way.

R2	0,7755	-1d
R1	0,7715	
EUR/GBP	0,7578	-0,0055
S1	0,7525	
S2	0,7313	



EUR/GBP: drifting lower as oil rebounds



Cable still looking for a bottom

Calendar

Friday, 29 January		Consensus	Previous
US			
14:30	Employment Cost Index (4Q)	0.6%	0.6%
14:30	GDP Annualized QoQ (4Q A)	0.8%	2.0%
14:30	Core PCE QoQ (4Q A)	1.2%	1.4%
15:45	Chicago Purchasing Manager (Jan)	45.9	42.9
16:00	U. of Mich. Sentiment (Jan F)	93.0	93.3
Canada			
14:30	GDP MoM/YoY (Nov)	0.3%/0.2%	0.0%/-0.2%
Japan			
	BOJ Annual Rise in Monetary Base	A ¥80t	¥80t
00:30	Jobless Rate (Dec)	A 3.3%	3.3%
00:30	Overall Household Spending YoY (Dec)	A -4.4%	-2.9%
00:30	Natl CPI YoY (Dec)	A 0.2%	0.3%
00:30	Natl CPI Ex Fresh Food YoY (Dec)	A 0.1%	0.1%
00:30	Tokyo CPI YoY (Jan)	A -0.3%	0.0%
00:30	Tokyo CPI Ex-Fresh Food YoY (Jan)	A -0.1%	0.1%
00:50	Industrial Production MoM/YoY (Dec P)	A-1.4%/-1.6%	-0.9%/1.7%
06:00	Housing Starts YoY (Dec)	A -1.3%	1.7%
UK			
01:01	Lloyds Business Barometer (Jan)	A 45	45
01:05	GfK Consumer Confidence (Jan)	A 4	2
EMU			
10:00	M3 Money Supply YoY (Dec)	5.2%	5.1%
11:00	CPI Estimate YoY (Jan)	0.4%	0.2%
11:00	CPI Core YoY (Jan A)	0.9%	0.9%
Germany			
08:00	Retail Sales MoM YoY (Dec)	A-0.2%/1.5%	0.2% / 2.3%
France			
07:30	GDP QoQ/YoY (4Q A)	A 0.2%/1.3%	0.3%/1.1%
08:45	CPI EU Harmonized MoM/YoY (Jan P)	-1.0%/0.4%	0.2%/0.3%
08:45	Consumer Spending MoM/YoY (Dec)	0.3%/0.6%	-1.1%/1.0%
Italy			
10:00	PPI MoM/YoY (Dec)	--/--	-0.6%/-4.2%
Belgium			
15:00	GDP SA QoQ/YoY (4Q P)	--/--	0.2%/1.3%
Spain			
09:00	CPI EU Harmonised MoM/YoY (Jan P)	-2.0%/-0.1%	-0.4%/-0.1%
09:00	GDP QoQ YoY (4Q P)	0.8%/3.5%	0.8%/3.4%
Norway			
10:00	Unemployment Rate (Jan)	3.4%	3.0%
10:00	Retail Sales w/auto fuel MoM (Dec)	-0.3%	0.6%
Events			
	American Airlines (bef mkt), Chevron (bef mkt), Xerox (13:00) Announce Q4 Earnings		
07:30	BOJ's Kuroda Gives Press Conference after its Policy Meeting		
18:00	ECB's Costa Speaks on Banif in Portuguese Parliament		
21:30	Fed's Williams gives forecast speech in San Francisco		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,95	-0,06	US	0,79	-0,05	DOW	16070 16069,64
DE	0,40	-0,03	DE	-0,44	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,67	-0,04	BE	-0,37	-0,01	NIKKEI	17518 17518,30
UK	1,69	-0,03	UK	0,41	-0,01	DAX	9639,59 9639,59
JP	0,11	-0,12	JP	-0,07	-0,05	DJ euro-50	2979 2979,42

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	td	-1d
3y	-0,101	1,011	1,006	Euribor-1	-0,23	0,00	Libor-1 USD	0,51	0,51
5y	0,122	1,301	1,269	Euribor-3	-0,16	0,00	Libor-3 USD	0,59	0,59
10y	0,733	1,811	1,706	Euribor-6	-0,08	0,00	Libor-6 USD	0,74	0,74

Currencies	-1d	Currencies	-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,0909 0,0029	EUR/JPY	131,45 2,44		164,1798	1114,7	34,68
USD/JPY	120,53 1,93	EUR/GBP	0,7578 -0,0055	-1d	1,50	-2,64	2,07
GBP/USD	1,4389 0,0144	EUR/CHF	1,1087 0,0032				
AUD/USD	0,7120 0,0076	EUR/SEK	9,282 0,02				
USD/CAD	1,4001 -0,0109	EUR/NOK	9,3935 -0,04				

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