



Sunrise

Thursday, 12 November 2015

Rates: German 2-yr yield sets new all-time low

In absence of US traders, trading was rather lackluster. Nevertheless, German bonds gained modest ground as ECB easing expectations still play a role. The German 2-yr yield set a new all-time low. Today, the calendar is uneventful with various Fed speeches the wildcard. We stay bearish on US Treasuries and neutral on Bunds.

Currencies: dollar in consolidation modus

The dollar lost a few ticks against the euro and the yen yesterday but the losses remain insignificant. This consolidation process might continue today as there are only second tier eco data on the agenda. Central bankers' speak remains a wildcard. Sterling was well bid yesterday, even as the UK labour market report painted a mixed picture.

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	↓

- **European equities** closed nicely in the green after a good market opening. **US equities** closed with modest losses, but in extremely thin volumes (holiday). Overnight, **Asian equities** are currently trading mixed, with most indices noting small gains.
- **Japanese machine orders** increased from -5.7% M/M in August to 7.5% M/M in September, well above the market consensus of 3.1% M/M.
- **The Australian job report for October overshot the expectations by a mile.** The net employment change increased with 58.6k, coming from a upwardly revised change of -0.8k. This was well above the expected 15.0k. The unemployment rate also improved from 6.2% to 5.9%. **Aussie dollar strengthened on the news.**
- **The Bank of Korea has kept its interest unchanged at 1.5% for the 5th straight month.** This move was in-line with the market consensus.
- **Commodities** made some big moves yesterday, **Oil dropped heavily**, with the **Brent Crude** (-3.2%), currently trading at **46.03\$/barrel**. Sliding back to the August low of 43.8 \$/barrel? **Precious metals** also dive deeper, **Platinum (-2%)** and **Palladium (-2.2%)**.
- Today the eco-calendar contains **the US jobless claims and the JOLTS job report**. In the **euro zone, there is the September industrial production**. **Interesting to watch today are Fed's Bullard, Yellen, Lacker, Evans and Dudley speaking.**

Rates

	US yield	-1d
2	0,8746	0,0002
5	1,7245	0,0101
10	2,3328	-0,0036
30	3,1219	0,0125

Core bonds slightly higher in thin trading

Short end German curve rallies, with 2-yr yield at new low

	DE yield	-1d
2	-0,3528	-0,0075
5	-0,0796	-0,0086
10	0,6173	-0,0199
30	1,5010	-0,0305

Eco data releases few and unattractive

Fed speakers: Surprises?

Calm trading on day of commemoration WW1

On Wednesday, the closure of the US and several European markets thinned trading and limited moves. The EMU eco calendar was nearly empty, while the UK labour market data drew some local interest (see FX part). In this context, the moves in the core bond and most other markets were subdued and technically irrelevant, even as the German 2-yr yield set a new short term low at -0.36%. The **OBL auction** was weak. While the moves were small yesterday, in the past three sessions German yields fell moderately while US ones stabilized (following the up-move after the payrolls). The **German curve slightly flattened with yields up to 2 bps lower**. In other markets, EUR/USD stabilized, European equities eked out nice gains and commodities remained under pressure with oil lower (on higher US inventories) and gold/copper stabilizing close too/testing the lows. In the **intra-EMU market**, spreads narrowed by up to 5 bps (Italy) with Greece outperforming (-9 bps). No new info from Portuguese political troubles or Catalanian steps to autonomy/independence.

US initial claims & EMU production highlights

Today, the US eco-calendar contains the **US jobless claims** and the **JOLTS job openings report**. The **weekly jobless claims** are expected to decline from 276k previous week to 270k this week. We side with the market expectations. The **JOLTS job openings** are expected to have increased slightly in September to 5400, coming from 5370 previously. We will scrutinize whether the JOLT report (which is no market mover) shows a further improvement in labour market conditions, as Yellen looks closely to the details of this report. In the **EMU**, the **industrial production for September** is expected to have declined -0.1% M/M (1.4% Y/Y), coming from -0.5% M/M in August. We see no specific risks to the consensus. Also interesting to watch today are **Fed's Bullard, Yellen, Lacker, Evans and Dudley speaking**. However, we got already many governors suggesting that the lift-off will likely take place in December. Attention goes now thus to the pace of tightening afterwards. Expect the governors to preach gradualism for the time being.



Bund (orange) & EuroStoxx (3 days): Bund rallies higher after post-payrolls hit

German 2-yr yield at new record low as QE 2.0 and lower deposit rate are discounted.

R2	158,6	-1d
R1	156,3	
BUND	156,25	0,2500
S1	154,85	
S2	152,75	

Italy and US conclude this week's supply

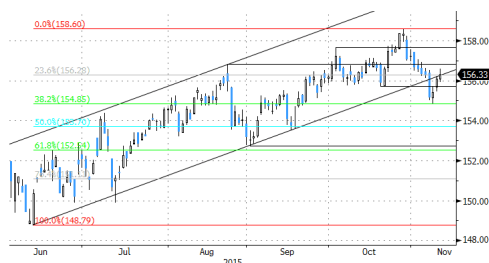
The Italian treasury taps the on the 3-yr BTP (€1.5-2B 0.3% Oct2018), the on the run 7-yr BTP (€2-2.5B 1.45% Sep2022) and two off the run 30-yr OAT's (€0.5-1B 5% Aug 2039 & 5% Sep2040). The total amount on offer is relatively low. In the run-up to the auctions, the bonds didn't cheapen in ASW spread terms. On the Italian curve, the on the run BTP's trade neutral while the off the run BTP's are rather cheap, especially the Sep2040 BTP. Overall we expect the auctions to go well. **In the US, the Treasury ends its financing operation with a \$16B 30-yr Bond auction.** Currently, the WI trades around 3.12%.

Today: Will Yellen give deathblow for US Treasuries?

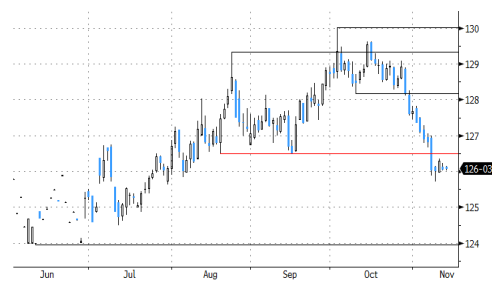
Overnight, Asian stock markets trade mixed. The US Note future is nearly unchanged, suggesting a neutral opening for the Bund.

Today's eco calendar contains (outdated) EMU industrial production data and weekly jobless claims. We don't expect them to influence trading. Fed speakers could play a bigger role with Fed chairwoman Yellen and governors Bullard, Lacker, Evans and Dudley scheduled to speak. Recent tone of Fed governors clearly hints at a December rate hike. Further confirmation, especially by Yellen, is an additional negative for US Treasuries.

Post payrolls, the **technical pictures for the US T-Note and the Bund deteriorated**. The Dec T-note future fell through key 126-16 support (US 10-yr yield above 2.3% resistance), painting a double top on the chart with 1st target at 123-23. Short term, there could be room for consolidation, but we hold our sell-on-upticks for US Treasuries. **The Bund** broke below the bottom of the uptrend channel (156.30 today) and tested 38% retracement from the June-October rally (154.85). A break lower didn't occur. **Despite the deterioration of the technical picture of the Bund, we remain more neutral given the ECB's easing bias and the elevated chance of additional QE and/or a deposit rate cut in Dec.**



German Bund: below uptrendline; changes technical picture from bullish to neutral.. We don't expect major further losses though because of easing bias ECB



US Note future lost 126-16 support. Sell on upticks.

Currencies

Dollar rally is taking a breather, but no substantial correction occurs yet.

R2	1,1072	-1d
R1	1,0809	
EUR/USD	1,0751	0,0012
S1	1,0675	
S2	1,0521	

Asian markets trade mixed this morning

The USD is little changed

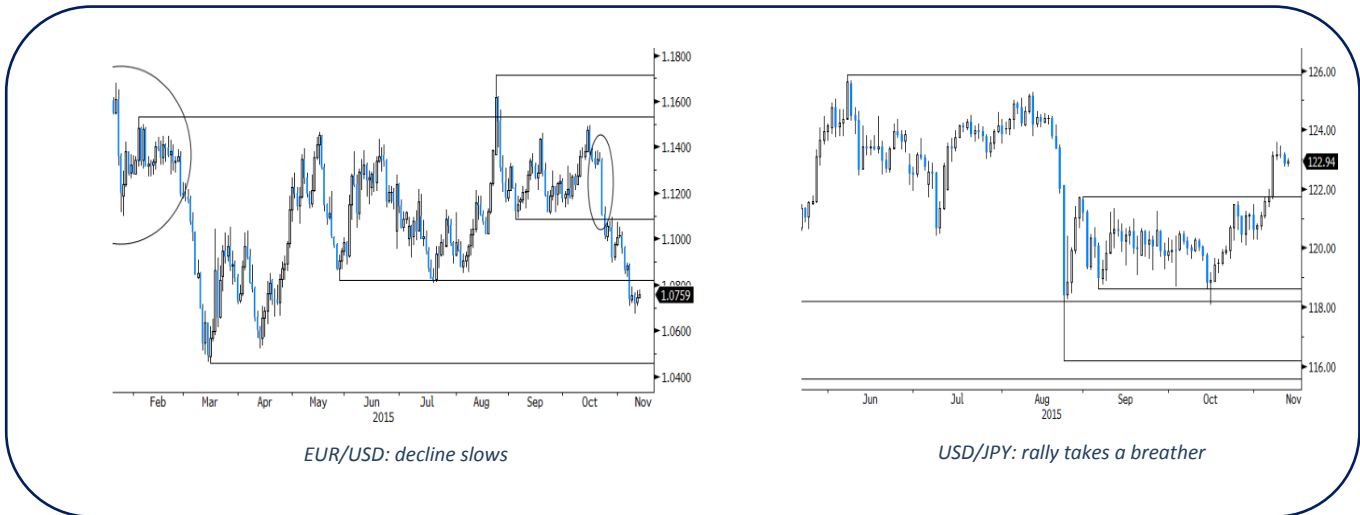
The Aussie dollar profits from strong labour market data.

USD in consolidation modus

On Wednesday, the dollar was in consolidation modus. In technical trade the US currency slightly lost ground against the euro and the yen, but the moves were not really significant. There were few eco data with market moving potential. Equities/global market sentiment also failed to give a clear guidance. EUR/USD closed the session at 1.0743 (from 1.0724). USD/JPY ended the session at 122.86 from 123.15 on Tuesday evening.

This morning, Asian equities show a mixed picture with mainland China underperforming. Most other indices are little changed. **The Australian labour market report did beat the consensus by a wide margin.** The employment grew by 58 600 in October (only 15.000 was expected) and the unemployment rate declined from 6.2% to 5.9%. The report questions the need for further RBA easing. The Aussie dollar gained almost a full big figure against the US dollar. AUD/USD trades currently in the 0.7140 area, even as global commodities stay under downside pressure. EUR/USD trades with a slight upward bias, changing hands in the 1.0755/60 area. USD/JPY hovers slightly below the 123 big figure.

Later today, the calendar in Europe and in the US is again only moderately interesting. The EMU industrial production is expected at -0.1% M/M and 1.3% Y/Y. The figure is no market mover for currency trading. In the US, the weekly jobless claims and the JOLTS job openings will be published. **These data are usually only of intraday significance for USD trading, at best.** So, the focus for global currency trading will remain on global market sentiment and on central bankers' speak. Yesterday, ECB's Coeure in an interview was quoted saying that the risks for growth and inflation are currency still to the downside, but that the debate on further ECB easing is open. European bond yields remained on a downward trajectory but had no negative consequences for the euro anymore. **Today, several Fed members will give their view on the monetary policy and/or on the US economy.** Fed's Yellen will speak too, but it's doubtful that she will address monetary policy issues.



USD has broken beyond key resistance levels. Cycle lows/highs in EUR/USD and USD/JPY at respectively 1.0458 and 125.86 come on the horizon.

Short term some consolidation on the USD rally is likely

R2	0,725	-1d
R1	0,7197	
EUR/GBP	0,7069	-0,0018
S1	0,7042	
S2	0,6936	

So, there are no obvious clues for USD trading today. In a day-to-day perspective, it looks that the dollar is ripe for some consolidation or maybe a limited technical setback after the recent rally. However, high and still rising bond yields differentials between the euro and the dollar will probably continue to cap the topside in EUR/USD. USD/JPY is drifting off the recent highs, but the correction on the equity markets remains too small to inspire a really big setback in USD/JPY. In theory, declining commodities might be a slightly positive for the dollar, but we don't have the impressive that the link between the dollar and commodities is that tight short-term.

In a broader perspective, short term interest rate differentials widened in favour of the dollar, pushing the US currency higher against the euro and the yen. EUR/USD dropped below the 1.0809 support and reached the targets of the multiple top formation (neckline 1.1087/1.1105) in the low 1.0715 rea. With policy divergence between the Fed and the ECB (and to a lesser extent also the BoJ) still in place, we don't row against the USD uptrend. However, quite some good (interest rate) news is already discounted. So, 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 hold on to 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 come on the radar, but a (sustained) break won't be easy short-term.

Sterling well bid despite mixed labour market report

On Wednesday, The UK labour market report painted a mixed picture. Job growth was better than expected and the unemployment rate dropped unexpectedly to 5.3%. On the other hand, wage growth was again slightly disappointing. Sterling initially didn't really know which way to go, but finally the UK currency succeeded a gradual intraday uptrend against the euro and the dollar. EUR/GBP closed the session at 0.7062 (from 0.7094). Cable ended the day at 1.5213 (from 1.5119 the previous day).

This morning, the RICS house price balance rebounded to 49 from 44 (45% was expected). There was hardly any positive reaction for sterling. Even so, the report might help to put a floor for sterling later today. There are no other important UK eco data, but BoE's Haldane will speak today. One can expect him to be on the soft side.

Looking at the broader picture, the soft tone at the ECB press conference pushed EUR/GBP again lower in the longstanding sideways range. The pair tested the 0.7196 support and the level was 'really' broken after the FOMC announcement. A retest occurred last week after a soft BoE inflation report, but the test was rejected. **We maintain a sell-on-upticks approach for EUR/GBP.**



EUR/GBP: euro weakness prevails



Cable: test of the 1.51 support area rejected, for now

Calendar

Thursday, 12 November		Consensus	Previous
US			
14:30	Initial Jobless Claims	270k	276k
14:30	Continuing Claims (Oct 31)	2155k	2163k
16:00	JOLTS Job Openings (Sep)	5400	5370
Canada			
14:30	New Housing Price Index MoM/YoY (Sep)	0.2%/1.3%	0.3%/1.3%
Japan			
00:50	Loans & Discounts Corp YoY (Sep)	A: 2.87%	3.07%
00:50	PPI MoM/YoY(Oct)	A: -0.6%/-3.8%	-0.5%/-3.9%
00:50	Machine Orders MoM/YoY (Sep)	A: 7.5%/-1.7%	-5.7%/-3.5%
03:00	Tokyo Avg Office Vacancies (Oct)	A: 4.46	4.53
UK			
01:01	RICS House Price Balance (Oct)	A: 0,49	0,44
EMU			
11:00	Industrial Production SA MoM/WDA YoY (Sep)	-0.1%/1.3%	-0.5%/0.9%
Germany			
08:00	CPI EU Harmonized MoM/YoY (Oct F)	0.0%/0.3%	0.0%/0.2%
France			
08:45	Current Account Balance (Sep)	--	0.2b
08:45	CPI EU Harmonized MoM/YoY (Oct)	0.1%/0.1%	-0.4%/0.1%
Sweden			
09:30	CPI CPIX MoM/YoY (Oct)	0.1%/1.1%	0.4%/1.0%
09:30	CPI Level (Oct)	314.30	314.06
Events			
09:00	Sweden - Riksbank's Ingves, Ohlsson in Parliamentary Hearing		
11:10	Italy - Auctions BTPs/CCTeus		
11:30	UK - 4.25% 2039 Gilt auction		
15:15	US - Fed's Bullard Speaks on Monetary Policy in Washington		
15:30	US - Yellen Makes Welcoming Remarks at Fed Policy Conference		
15:45	US - Fed's Lacker Participates in Monetary Policy Panel		
16:15	US - Fed's Evans Speaks on Economy and Policy in Chicago		
18:00	UK - BoE's Chief Economist Andy Haldane speaks in London		
18:15	US - Fed's Dudley Speaks on Economy and Policy in New York		
19:00	US - Holds 30-year bond auction		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,33	0,00	US	0,87	0,00	DOW	17702 17702,22
DE	0,62	-0,02	DE	-0,35	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,90	-0,01	BE	-0,29	-0,01	NIKKEI	19698 19697,77
UK	2,05	0,00	UK	0,71	0,00	DAX	10907,87 10907,87
JP	0,31	-0,01	JP	0,00	0,00	DJ euro-50	3448 3448,42

	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
IRS				Eonia EUR	-0,131				0,008
3y	0,002	1,261	1,257	Euribor-1	-0,13	0,00	Libor-1 USD	0,51	0,51
5y	0,253	1,664	1,586	Euribor-3	-0,08	0,00	Libor-3 USD	0,58	0,58
10y	0,949	2,220	2,025	Euribor-6	0,00	-0,01	Libor-6 USD	0,74	0,74

Currencies	-1d	Currencies	-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,0751 0,0012	EUR/JPY	132,13 -0,09		188,3477	1087,7	45,98
USD/JPY	122,94 -0,20	EUR/GBP	0,7069 -0,0018	-1d	-1,07	-2,50	-1,30
GBP/USD	1,5205 0,0060	EUR/CHF	1,0795 0,0010				
AUD/USD	0,7149 0,0095	EUR/SEK	9,3327 0,02				
USD/CAD	1,3250 -0,0016	EUR/NOK	9,2736 0,03				

Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Joke Mertens	+32 2 417 30 59	Institutional Desk	+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94	France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)			
Jan Cermak	+420 2 6135 3578	Prague	+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8809	Bratislava	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	Budapest	+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE ON WWW.KBCCORPORATES.COM/RESEARCH

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

