



## Sunrise

Wednesday, 02 December 2015

### US Treasuries rally sharply on weak ISM; Curve flattens

Core bonds, especially Bund, corrected initially lower, but a very weak ISM report triggered a strong rally of US Treasuries. The curve flattened substantially. German Bunds showed vigour. The German curve steepened with small declines at the short end. Today, US markets will eagerly await ADP report and Yellen. Bund market might calm ahead of ECB tomorrow.

### USD slightly lower after poor US ISM

Yesterday, the dollar fell prey to modest profit taking and the decline accelerated temporary after a poor US ISM. However, the correction remained limited. USD investors don't want to change course ahead the ECB decision tomorrow and the payrolls on Friday. Today, the focus for USD trading is on the ADP report and on a speech of Fed's Yellen.

### 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** had a weak trading session. **US equities** ended the session with nice gains. Overnight, **Asian equities** are trading mixed, with most indices showing red numbers, except the Chinese equities.
- **In November, the US car sales reached the highest level in over 15 years at 18.12 million car sold (annualized).**
- **Fed governor Brainard has concerns about the tightening cycle**, urging her colleagues to move cautiously as they raise. **Chicago Fed Evans** said that a **December rate lift-off still makes him nervous**.
- **The Australian GDP grew better than expected, with 0.9% Q/Q (vs 0.8% Q/Q expected) and 2.5% Y/Y (vs 2.4% Y/Y expected).** The Aussie dollar did not move much as most of the surprise was already priced-in after yesterday's data.
- Overnight, commodity prices went a tad lower, with **Brent Crude trading at 44.24\$/barrel**. The **metals prices remained rather mixed**.
- Today the **eco-calendar** contains limited data releases. In the **US, the ADP employment report** is being released and in the **EMU, the November CPI** data. There are however a lot of **interesting Fed speakers: Yellen, Lockhart** and **William**. Also, the Fed's beige book is released.

# Rates

## Core bond rally after disconcerting weak ISM

Mixed performance bonds

US curve bear flattens

German curve bear steepens

Yesterday, global core bonds traded initially with a downward bias, but could already recoup some of the losses (without strong driver) ahead of the disconcertingly weak US ISM. Afterwards, they added strong (US) to modest (Germany) gains. The weak ISM pushed US Treasuries through near term resistances which caused a short squeeze adding also a technically-inspired element to the rally. As the damage at the short end was still rather small, the ISM didn't really change the market's view on a rate lift-off. In a daily perspective, the German yield curve steepened with yields changes ranging between -2.4 bps (2-yr) and +2.4 bps (30-yr). The US yield curve bull flattened with yield declines between 2.4 bps (2-yr) and 7 bps (30-yr). **On intra-EMU bond markets**, 10-yr yield spreads versus Germany ranged between +2 bps (Ireland) and -5 bps (Portugal) with Greece outperforming (+16 bps).

	US yield	-1d
2	0,9306	-0,0157
5	1,6168	-0,0458
10	2,171	-0,0561
30	2,9283	-0,0637

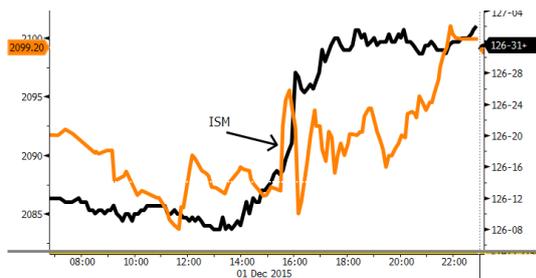
## Fed doves doubt on timing lift-off, stress gradualism

Fed Evans and Brainard still reluctant to hike in December, but stress gradual tightening path, suggesting they expect December lift-off

**Chicago Fed Evans**, one of the most dovish members of the FOMC said a **December rate lift-off makes him nervous**. He said: "I would prefer to have more confidence than I do today that inflation is indeed beginning to head higher" before raising rates. He added: "regardless of the exact date for lift-off, I think it would be appropriate for the funds rate to still be under 1% at the end of 2016." Evans however also said the economy is still strong enough so that gradual increases could be consistent with continued strong growth and rising inflation. He insisted on clear communication about the "gradualism".

	DE yield	-1d
2	-0,4300	-0,0180
5	-0,1916	-0,0221
10	0,4737	-0,0160
30	1,3644	0,0266

**Fed board governor Brainard**, who previously spoke out against a 2015 lift-off, **has concerns too about the tightening cycle**, urging her colleagues to move cautiously as they raise rates and to expect the benchmark to top out at a lower level than in previous cycles. She spoke about a "new normal" (due to lower foreign growth, greater risk sensitivity after the crisis and changes to potential output.) characterized by lower rates, which counsels a cautious and gradual approach to adjusting monetary policy. She said that "the nominal neutral rate may not be far above the nominal fed funds rate even now." She warned that the 15% dollar appreciation since mid-2014 would require a downward adjustment of the Fed funds rate by 1%-point"



T-Note future (black) & S&P future (orange): Sharp rally post ISM release in bond markets; equities rally towards end of the session

Current Implied Probabilities		Add/Remove Rates							
Dates	Meeting	Calculation	Calculated 12/02/2015						
			0-0.25	0.25-0.5	0.5-0.75	0.75-1	1-1.25	1.25-1.5	1.5-1.75
12/16/2015		72.0%	28.0%	72.0%	0.0%	0.0%	0.0%	0.0%	0.0%
01/27/2016		74.8%	25.2%	67.6%	7.2%	0.0%	0.0%	0.0%	0.0%
03/16/2016		86.4%	13.6%	48.1%	35.0%	3.3%	0.0%	0.0%	0.0%
04/27/2016		88.3%	11.7%	43.3%	36.8%	7.7%	0.5%	0.0%	0.0%
06/15/2016		93.2%	6.8%	30.0%	39.5%	20.0%	3.5%	0.2%	0.0%
07/27/2016		94.3%	5.7%	26.3%	38.0%	23.1%	6.2%	0.7%	0.0%
09/21/2016		95.9%	4.1%	20.5%	34.7%	27.3%	10.9%	2.2%	0.2%
11/02/2016		96.8%	3.2%	16.8%	31.5%	29.0%	14.6%	4.2%	0.7%
12/14/2016		97.9%	2.1%	12.3%	26.6%	29.8%	19.4%	7.7%	1.9%
02/01/2017		98.4%	1.6%	9.6%	22.9%	29.0%	22.1%	10.7%	3.4%

Fed Funds probabilities: Weak ISM hasn't changed expectations for the Dec. meeting with a 72% chance on a 25 bps rate hike

## US ADP report and Yellen speech key

No bias for US ADP nor for EMU CPI

Fed speakers to watch out for

**Today the eco-calendar contains limited data releases.** In the US, the ADP employment report (private sector) is being released. **The ADP employment change** is expected to improve to 190k jobs in November, coming from 182k in October. We side with the market consensus. **In the eurozone, the November CPI** is expected to increase from 0.1% Y/Y to 0.2% Y/Y, and the core inflation is expected to remain stable. We side with the market consensus. **Fed's Yellen, Lockhart, Tarullo and Williams speeches are interesting too, as is the Beige Book.**

R2	160,62	-1d
R1	158,78	
<b>BUND</b>	<b>158,5</b>	0,2100
S1	157,26	
S2	154,81	

## Today: Yellen to give the "all clear"?

**Overnight**, most Asian stock markets tread water which is disappointing given WS's performance. The US Note future is still slightly lower though, losing some of yesterday's post-ISM gains. We expect a neutral Bund opening.

**Today**, the US eco calendar contains ADP employment (we side with consensus) and speeches by Fed governors Lockhart, Williams (both voters, 2015 lift-off), Tarullo (voter, 2016 lift-off) & **Fed chairwoman Yellen**. Of course, Yellen's speech is most important. We don't expect her to downplay chances of a 2015 lift-off. If she would do it, it would doubtless boost US Treasuries. At previous public occasions, she often mentioned that the Fed will lift-off rates before the end of the year. While she most likely won't literally repeat it, **she might give a strong nod towards a December rate hike**. That's a negative for US Treasuries and should undo yesterday's gains. **In the US Treasury market, we put our sell-on-upticks approach on hold awaiting the Yellen speech and Friday's payrolls report.**

In Europe, November inflation data will be released. Whatever the outcome, we don't expect it to influence the outcome of tomorrow's ECB meeting or to trigger a market reaction. **For the Bund, we have a neutral view today ahead of the ECB.**



German Bund: countdown to ECB



US Note future (March contract!!): await the outcome of Yellen speech and US payrolls.

# Currencies

## USD losing ground slightly on poor US ISM

On Tuesday, the dollar fell prey to limited profit taking against the euro. There were already tentative signs of dollar softness in Asia. The USD correction accelerated temporary as the ISM of the manufacturing sector dropped below the 50 boom-or-bust mark. However, investors remain reluctant to really change course on the recent EUR/USD decline ahead of the ECB meeting. EUR/USD closed session at 1.0633 up from 1.0565 on Monday. The decline of USD/JPY was modest as US equities performed well. USD/JPY closed the session at 122.87 from 123.11 on Monday.

Overnight, Fed's Brainard spoke soft and indicated that there was not that much room for Fed to tighten monetary policy. She also indicated that a 1% rate cut would be needed to counter balance the impact of the strong dollar. **For now the soft Fed speak and the weak ISM have only a limited negative impact on the dollar.** EUR/USD is off yesterday's correction top and trades in the 1.0610 area. USD/JPY regained the 123 barrier. Asian equities are trading mixed. Tentative USD weakness supported US equities yesterday, but the impact on of a potential weaker dollar on Asian markets is less clear.

Q3 GDP growth in Australia was reported at 0.9% Q/Q and 2.5% Y/Y, slightly ahead of expectations. The Aussie dollar is holding just north of 0.73 area, but there are no additional gains. The good Q3 GDP was no big surprise anymore after yesterday's Q3 export data. The Aussie dollar is also ceding slightly ground as the US dollar reverses part of the yesterday's losses this morning.

*USD off the recent highs, but correction remains limited despite poor US ISM*

R2	1,083	-1d
R1	1,0773	
EUR/USD	1,0609	0,0020
S1	1,0558	
S2	1,0521	

*Asian markets show no clear trend this morning.*

*USD regains part of yesterday's losses.*



*EMU CPI and US ADP labour report key data series for currency trading today ?*

*Yellen speaks on the economy after the close of the European markets*

**Today**, the EMU CPI will be published. Headline inflation is expected to rise from 0.1%Y/Y to 0.2 Y/Y. Core inflation is expected stable at 1.1%. We don't have reasons to take a different view from the consensus. The report probably won't change market expectations on tomorrow's ECB policy decision. **An in line or weaker than expected outcome might be a slightly negative for the euro.** In the US, the ADP labour market report is expected to show private employment growth at 190 000. The bar of the consensus is quite high. However, yesterday's price action indicates that the investors are reluctant to sell the dollar, even in case of disappointing US data, ahead of tomorrow's ECB meeting. This might still be the case today. **After the close of the European markets, Fed's Yellen will speak on the economy and the Fed will publish the beige book.** We don't

expect Yellen to really amend the communication on a December rate hike ahead of the payrolls. If so, it might be a slightly positive for the dollar. In a day-to-day perspective, we expect no real change of the recent USD trading pattern ahead of tomorrow's ECB meeting. The data and speech might cause some intraday volatility, but in the end we expect the dollar to hold near the recent highs, both against the euro and the yen. To put it another way, euro caution will remain in place due to expected ECB easing.

*Topside of the euro looks well protected going into the ECB policy decision*

**From a technical point of view**, EUR/USD dropped below the 1.0809 support and reached the targets of the short-term multiple top formation in the low 1.0715 area. With policy divergence between the Fed and the ECB still in place, we don't row against the EUR/USD downtrend, but 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 maintain 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 came on the radar, but a test looks difficult short-term.

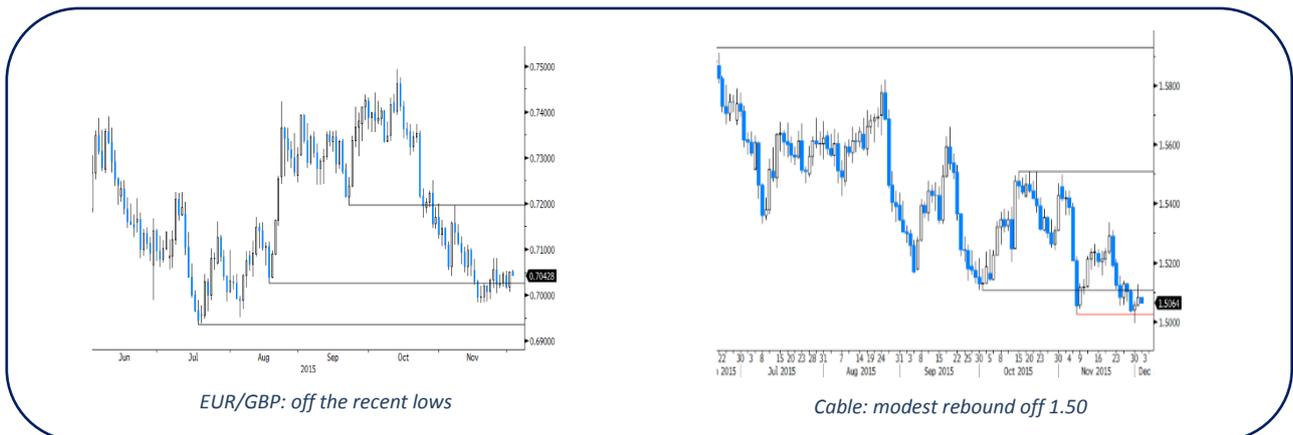
**Sterling continues to trade weakish**

R2	0,725	-1d
R1	0,7197	
<b>EUR/GBP</b>	<b>0,7042</b>	0,0032
S1	0,6982	
S2	0,6936	

**On Tuesday**, sterling trading was driven by conflicting factors. Early in the session the global dollar 'correction' prevailed. Cable rebounded north of the 1.51 level early in European dealing. In this USD correction cable even slightly outperformed EUR/USD, pushing EUR/GBP to the low 0.70 area. **The UK manufacturing PMI drop from 55.2 to 52.7**. The consensus expected only a drop to 53.6. Sterling lost some ground after the publication of the report, but the losses were limited. Both cable and EUR/GBP settled in a sideways range respectively in the high 1.50 area and the 0.7020 area. During the US trading session, sentiment on sterling remained rather soft. Cable hardly profited from the poor US ISM. The pair closed the session at 1.5082 (from 1.5056). EUR/GBP drifted higher in line with EUR/USD and closed the session at 0.7052 (from 0.7053)

**Today, only the UK construction PMI will be published. A slight setback from 58.8 to 58.5 is expected. This is still a very healthy level, we expected the report only to be of intraday significance for sterling trading. Global factors will drive sterling trading. Over the previous days, momentum in sterling was a bit weakish. This might continue today .**

**Looking at the broader picture**, the soft ECB stance pushed EUR/GBP lower in the longstanding sideways range. The pair cleared the 0.7196 support after the October FOMC meeting. We maintain a cautious sell-on-upticks approach for EUR/GBP as euro weakness prevails. Next key support is this year's low at 0.6936. The correction low at 0.6982 has become an interim support.



EUR/GBP: off the recent lows

Cable: modest rebound off 1.50

# Calendar

Wednesday, 2 December		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	-3.2%
<b>14:15</b>	<b>ADP Employment Change (Nov)</b>	<b>190k</b>	<b>182k</b>
14:30	Nonfarm Productivity (3Q F)	2.2%	1.6%
14:30	Unit Labor Costs (3Q F)	1.0%	1.4%
15:45	ISM New York (Nov)	58.0	65.8
<b>Canada</b>			
<b>16:00</b>	<b>Bank of Canada Rate Decision</b>	<b>0.50%</b>	<b>0.50%</b>
<b>Japan</b>			
00:50	Monetary Base YoY (Nov)	A: 32.5%	32.5%
00:50	Monetary Base End of period (Nov)	A: ¥343.7t	¥344.4t
<b>UK</b>			
10:30	Markit/CIPS UK Construction PMI (Nov)	58.5	58.8
<b>EMU</b>			
11:00	PPI MoM/YoY (Oct)	-0.4%/-3.2%	-0.3%/-3.1%
<b>11:00</b>	<b>CPI Estimate YoY (Nov)</b>	<b>0.2%</b>	<b>0.1%</b>
<b>11:00</b>	<b>CPI Core YoY (Nov A)</b>	<b>1.1%</b>	<b>1.1%</b>
<b>Spain</b>			
09:00	Unemployment MoM Net ('000s) (Nov)	-6.5	82.3
<b>Events</b>			
<b>02:00</b>	<b>US - Fed's Brainard Speaks on Lower Neutral Rates in Stanford CA</b>		
11:30	UK - Gbp 3.75bn 1.5% Jan 2021 Gilt		
14:10	US - Fed's Lockhart Speaks on U.S. Economy in Florida		
<b>14:30</b>	<b>US - Yellen Makes Welcoming Remarks at Fed College Challenge</b>		
<b>18:25</b>	<b>US - Fed's Yellen Speaks to the Economic Club of Washington</b>		
<b>20:00</b>	<b>US - U.S. Federal Reserve Releases Beige Book</b>		
<b>21:40</b>	<b>US - Fed's Williams Delivers Outlook Speech in Portland, Oregon</b>		

10-year	td	- 1d	2-year	td	- 1d	STOCKS	- 1d
US	2,17	-0,06	US	0,93	-0,02	DOW	17888 17888,35
DE	0,47	-0,02	DE	-0,43	-0,02	NASDAQ	or Exch - NQI #VALUE!
BE	0,78	-0,02	BE	-0,34	-0,02	NIKKEI	19938 19938,13
UK	1,76	-0,07	UK	0,55	-0,05	DAX	11261,24 11261,24
JP	0,33	0,02	JP	0,00	0,00	DJ euro-50	3480 3479,64

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,131 -0,004
3y	-0,077	1,196	1,081	Euribor-1	-0,16	0,00	Libor-1 USD	0,50 0,50
5y	0,154	1,535	1,354	Euribor-3	-0,11	0,00	Libor-3 USD	0,57 0,57
10y	0,820	2,027	1,792	Euribor-6	-0,04	0,00	Libor-6 USD	0,73 0,73

Currencies		- 1d	Currencies		- 1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,0609	0,0020	EUR/JPY	130,59	0,50	- 1d	182,5396	1067,8	44,26
USD/JPY	123,125	0,24	EUR/GBP	0,7042	0,0032		-0,70	-3,60	-0,63
GBP/USD	1,5063	-0,0036	EUR/CHF	1,0895	0,0030				
AUD/USD	0,7309	0,0047	EUR/SEK	9,2298	0,02				
USD/CAD	1,3370	0,0026	EUR/NOK	9,1662	0,01				

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