



## Sunrise

Friday, 13 November 2015

### Core bonds end little changed to slightly higher

It seems markets had enough info about the near term prospects for ECB and Fed action, which are thus largely discounted. There are today key eco data and we will be eager to see whether they may affect markets in a more than temporary way. We doubt they will. Carnage in commodity markets continues unabatedly.

### Dollar records modest losses a sentiment turns risk-off

Yesterday, the dollar fell prey to profit taking as global equities turned south. However, the losses were limited as the Fed speakers confirm the likelihood of a December rate hike. Soft comments from ECB's Draghi cap the topside in EUR/USD, too. Today, the Focus is on the US and the EMU eco data.

### 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** were bleeding on all indices, with losses up to 2.4% as the basic resources sectors received big blows. **US equities** were also hit, with the S&P closing down -1.4%. Overnight, **Asian equities** also keep on sinking on the commodities sell-off.
- **The French economy grew as expected by 0.3% Q/Q in Q3 and 1.2% Y/Y**, slightly better than expected as consensus was eyeing 1.1% Y/Y. The French economy returned to modest growth after a flat second quarter.
- **Peru's central bank holds its benchmark interest rates steady at 3.5%** for the second month, after having raised by 0.25% in September.
- **Federal Reserve governor Dudley warns that waiting for inflation to pick up before tightening heightens the risks of an economic hard landing.**
- **Federal Reserve governors Bullard and Evans said that the rising of interest rates should happen gradually** and should depend on how well the economy performs.
- **Commodities** keep crumbling down, **Brent Crude** remains on the sled, **losing another -3.7%**, currently **trading at 44.10 \$/barrel**, dangerously close to the low of 43.83\$/barrel. **Metals** also keep falling, **with Palladium sliding -5%** and **Copper down -2.8%**
- Today **the eco-calendar contains more market moving news**, with the **retail sales and the University of Michigan's confidence indicator in the US**. In the **EMU, Q3 GDP** will be released. **Also interesting are speeches of Fed's Mester as well as ECB's Nowotny & Constancio.**

# Rates

## Draghi gives clear hint on December easing

Small gains for core bonds

Are upcoming ECB & Fed decisions sufficiently discounted?

Will ECB start buying Greek bonds?

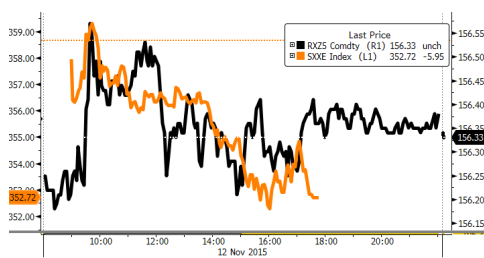
	US yield	-1d
2	0,8832	0,0086
5	1,7217	-0,0028
10	2,3151	-0,0177
30	3,0729	-0,0490

Draghi strikes unexpectedly dovish tone

	DE yield	-1d
2	-0,3479	0,0049
5	-0,0713	0,0083
10	0,6108	-0,0065
30	1,4625	-0,0385

Global core bonds traded sideways and closed the session mixed to a little higher. The Bund couldn't hold on to early gains on the back of dovish Draghi comments. In a daily perspective, the US yield curve flattened bullishly with yields down between 0.4 and -2.6 bps (30-yr). Changes on the German yield curve were limited in the 2-to 10-year sector. The 30-year Bund outperformed, following a substantial underperformance (and steepening 10-30-year) and its yield fell 3.9 bps. Eco data (EMU production and US initial claims) were irrelevant for trading. The US 30-year bond auction went very well, helping US Treasuries temporarily somewhat. The impact of equity weakness had surprisingly little impact. In the intra-EMU bond market, changes were limited with the Italian 10-year outperforming on a strong BTP auction (-4 BPS) and Greek 10-year spread down 24 bps, as Draghi suggested that if conditions are fulfilled, the ECB may start buying Greek bonds.

Draghi's stroke an unexpectedly dovish tone and pushed the Bund higher. He said that "signs of a sustained turnaround in core inflation have somewhat weakened", despite last month's uptick from 0.9% Y/Y to 1.0% Y/Y. He significantly hinted that additional easing is on its way in December: "the option of doing nothing would go against price stability. That is what will outline the strategy for the coming months." Apart from adapting the asset purchase programme, "other instruments could be activated to strengthen the impact of the purchase programme if necessary". That's a clear nod to a deposit rate cut, because the ECB can't buy bonds which yield less than that deposit rate. By lowering it, the scope of bonds available for the QE-programme increases. However, the market seem to have discounted probably enough easing for now.



German Bund (black) & EuroStoxx (orange), Little impact equities on core bonds



Gold retest lows.

## US retail sales and Michigan consumer confidence key.

Will retail sales regain some strength in October?

Consumer confidence to remain firm

EMU Q3 growth solid

R yield

The US retail sales are expected to have risen from 0.1% M/M in September to 0.3% M/M in October. The Retail sales Ex Auto & Gas is expected to have risen from 0.0% M/M to 0.4% M/M in October. We have no reasons to distance ourselves from consensus. The November Michigan consumer confidence is expected to increase to 91.5, coming from 90.0 last month. We expect some upside risks, taking the encouraging labour news of late into account. In the EMU, Q3 GDP growth is expected to growth at the same pace as inn Q2 at 0.4%

M/M, however a slight increase on a yearly basis is expected, from 1.5% Y/Y to 1.7% Y/Y. We side with the consensus. Also interesting to watch are Fed's Mester and ECB's Constancio and Nowotny.

R2		-1d
R1		
<b>BUND</b>	<b>156,35</b>	<b>0,1000</b>
S1		
S2		

### Is the market correctly priced for ECB/FED decisions?

**Overnight**, Asian stock markets trade negative, but not more than WS yesterday. US equity futures are nearly stable, but European equities should still have to do some catching up with late WS losses. The US Note future is marginally lower overnight, but too little to take it into consideration. So, the Bund might open little changed.

**Today's eco calendar contains potential market moving eco releases.: US retail sales and Michigan consumer confidence and EMU Q3 GDP. Both the Fed and the ECB has given strong signals that they will respectively tighten and ease policy in December. So, eco data should already surprise very sharply (and be confirmed by other data) before it could still influence the central bank's decisions.** Really strong US data may influence thinking about the pace of tightening post-lift-off, but with commodities still sliding lower, to cyclical lows, that danger may be not so big. For the ECB, an upward surprise in Q3 GDP would question the ECB's downside growth risks, but also here the ECB may look through the stronger growth. Just like Draghi sees downside risks also in the core CPI which nobody else sees. In this respect **we think the Bund is fairly priced awaiting now the actual ECB decision. Similarly, US Treasuries, after a 30 bps rise in yields, looks better protected to stronger data. We might see the sentiment on risk as the main driver today, but unlikely to move core bonds significantly.**

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 1<sup>st</sup> 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 December.**



German Bund: retesting uptrendline; recouping it would be a technical positive



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

# Currencies

*Risk-off sentiment caps the rebound of the dollar, but the losses remain modest*

R2	1,1072	-1d
R1	1,083	
<b>EUR/USD</b>	<b>1,07885</b>	0,0038
S1	1,0675	
S2	1,0521	

*Asian markets join the risk-off correction, but with little additional negative impact on the dollar.*

*Eco calendar is well filled*

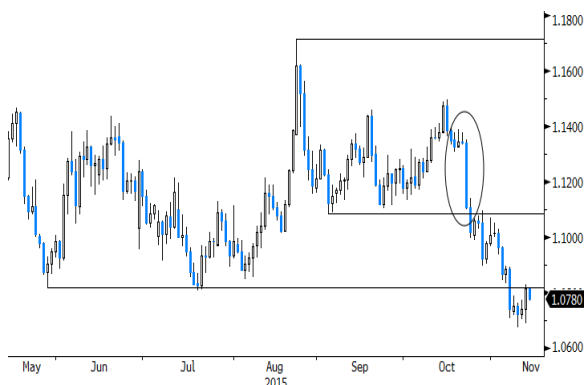
*EMU GDP and US retail sales take center stage*

## Risk-off sentiment causing modest USD correction

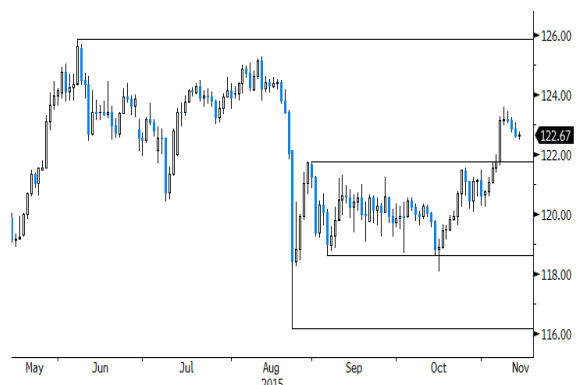
On Thursday, global markets gradually turned into risk off modus. A new downleg in commodities weighed on global equities. Initially there was no clear directional reaction of the dollar. The US currency opened slightly in the defensive in Asia. Euro weakness resurfaced as ECB's Draghi kept a soft stance in a hearing before the European parliament. Later in the session, further equity losses took some shine off the dollar. EUR/USD closed the session at 1.0814, from 1.0743. USD/JPY ended the day at 122.61 (from 121.86).

**Overnight**, Asian equities are also affected by the correction in Europe and in the US. The decline in commodities continues. The Aussie dollar holds up well (AUD/USD at around 0.7125) despite the commodity decline. Yesterday evening and overnight, several Fed-members gave their view on the economy and on monetary policy. Most of them confirmed that a lift-off can be considered in the near future. **Stanley Fisher elaborated on the weak global context and on the impact of the stronger dollar on growth and inflation.** However, for now those factors are apparently no objection for a December lift-off. Even so, the dollar remains slightly in the defensive. EUR/USD jumped temporary above 1.08 yesterday evening and trades currently in the 1.0785 area. USD/JPY is holding below the 123 barrier and trades currently in the 122.65 area.

**Later today, the calendar is very interesting. In Europe**, the first estimate of the Q3 EMU GDP will be published. Growth is expected at 0.4% Q/Q (similar to Q2) and at 1.7% Y/Y. An EMU growth figure in line with expectations wouldn't be a grand cru, but isn't that bad either. However, recent ECB comments suggest that this kind of growth won't change the bank's intention the ease policy further. So, we probably need a substantial upward surprise for EMU growth to support the euro in a sustainable way. **In the US, the retail sales, the PPI and the consumer confidence of the University of Michigan will be published.** October retail sales are expected to rebound (0.4% for the control group) after a poor September figure. We don't have strong reasons to take a different view from the consensus. Michigan consumer confidence is expected to improve from 90.0 to 91.5. We see risk for a better than expected report. PPI data are expected to stay soft. The combined activity data (retail sales and consumer confidence) might be slightly positive for the dollar.



EUR/USD: rebounds to 1.08 area



USD/JPY: modest losses despite equity setback

*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	
<b>EUR/GBP</b>	<b>0,7086</b>	0,0017
S1	0,7042	
S2	0,6936	

**Short-term**, the ‘confirming’ of a December lift-off helps to put a floor for a USD correction. Equities and commodities became more important as a factor for global and for currency trading. For now, the growing risk-off sentiment is blocking further dollar gains, but the losses remain most. The decline in commodities is hardly any help for the dollar. We don’t expect an EUR/USD rebound to go far, unless the US data are really poor

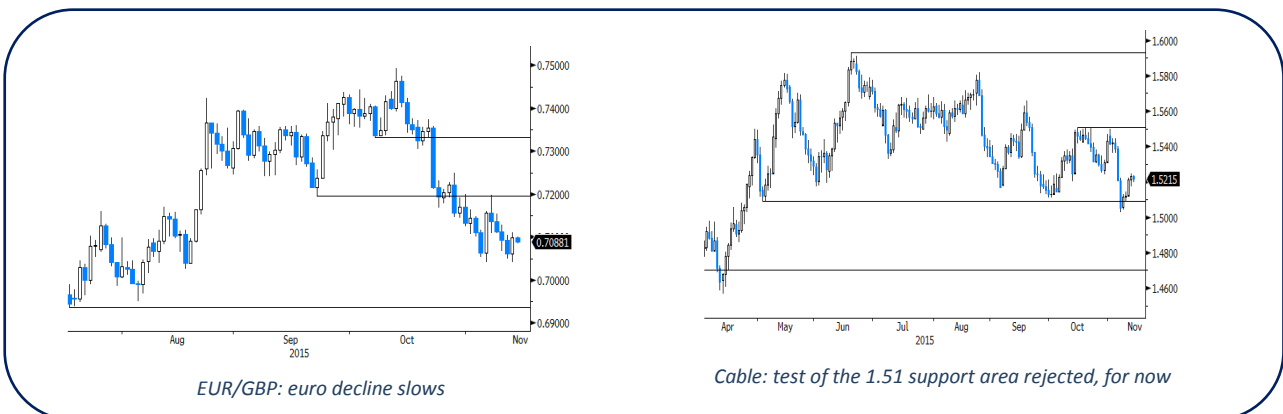
**In a broader perspective, short term interest rate differentials widened in favour of the dollar.** EUR/USD dropped below the 1.0809 support and reached the targets of the multiple top formation (neckline 1.1087/1.1105) in the low 1.0715 area. With policy divergence between the Fed and the ECB still in place, we don’t row against the USD uptrend. However, quite some news (interest rate) 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 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 come on the radar, but a (sustained) break won’t be easy short-term.

**Sterling still driven by global factors**

**On Thursday**, the RICS House Price balance was stronger than expected, but the report was not able to help sterling. There were no other important economic data in the UK yesterday. Cable initially settled in a tight range close to/slightly below the 1.52 big figure, but US weakness pushed the pair back north of 1.52. EUR/GBP to a large extent followed again the price pattern of EUR/USD. The pair spiked lower to the 0.7040 area during the hearing of ECB’s Draghi before the European Parliament. However as was the case for EUR/USD, there were no follow-through losses. The pair settled in a tight range near the 0.7060 pivot, just to return higher as EUR/USD rebounded after US equity open. The pair closed the session at 0.7099, compared to 0.7062 on Wednesday.

**Today, the UK calendar only contains the September construction output.** A rebound (1.5% M/M) is expected after a poor August figure (-4.3% M/M). We don’t expect a lasting impact on sterling trading. With global market volatility rising, cable and EUR/GBP are in the first place driven by the global USD moves. In line with EUR/USD, we look out where the rebound in EUR/GBP stops. The 0.72 area should be a strong resistance.

**Looking at the broader picture**, the soft stance of the ECB 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 after a soft BoE inflation report, but the test was rejected. **We maintain a sell-on-upticks approach for EUR/GBP.**



# Calendar

Friday, 13 November		Consensus	Previous
<b>US</b>			
14:30	Retail Sales Advance MoM (Oct)	0.3%	0.1%
14:30	Retail Sales Ex Auto MoM (Oct)	0.4%	-0.3%
14:30	Retail Sales Ex Auto and Gas (Oct)	0.4%	0.0%
14:30	Retail Sales Control Group (Oct)	0.4%	-0.1%
14:30	PPI Final Demand MoM (Oct)	0.2%	-0.5%
14:30	PPI Ex Food and Energy MoM/YoY (Oct)	0.1%/0.5%	-0.3%/0.8%
14:30	PPI Ex Food, Energy, Trade MoM/YoY (Oct)	0.1%/0.5%	-0.3%/0.5%
14:30	PPI Final Demand YoY (Oct)	-1.2%	-1.1%
16:00	Business Inventories (Sep)	0.0%	0.0%
16:00	U. of Mich. Sentiment (Nov P)	91.5	90.0
16:00	U. of Mich. Current Conditions (Nov P)	--	102.3
16:00	U. of Mich. Expectations (Nov P)	--	82.1
<b>Japan</b>			
05:30	Industrial Production MoM/YoY (Sep F)	A: 1.1% / -0.8%	1.0%/-0.9%
05:30	Capacity Utilization MoM (Sep)	A: 1.5%	-0.9%
05:30	Tertiary Industry Index MoM (Sep)	A: -0.4%	0.1%
<b>UK</b>			
10:30	Construction Output SA MoM/YoY (Sep)	1.5%/-0.4%	-4.3%/-1.3%
<b>EMU</b>			
11:00	Trade Balance SA (Sep)	19.3b	19.8b
11:00	Trade Balance NSA (Sep)	16.0b	11.2b
11:00	GDP SA QoQ/YoY (3Q A)	0.4%/1.7%	0.4%/1.5%
<b>Germany</b>			
08:00	GDP SA QoQ (3Q P)	0.3%	0.4%
08:00	GDP WDA YoY (3Q P)	1.8%	1.6%
08:00	GDP NSA YoY (3Q P)	1.8%	1.6%
<b>France</b>			
07:30	GDP YoY/QoQ (3Q P)	1.1%/0.3%	1.1%/0.0%
08:45	Non-Farm Payrolls QoQ (3Q P)	0.1%	0.2%
08:45	Wages QoQ (3Q P)	--	0.3%
<b>Italy</b>			
10:00	GDP WDA QoQ/YoY (3Q P)	0.3%/1.0%	0.3%/0.7%
10:30	General Government Debt (Sep)	--	2184.7b
11:00	CPI FOI Index Ex Tobacco (Oct)	--	107.0
11:00	CPI EU Harmonized YoY (Oct F)	0.3%	0.3%
<b>Spain</b>			
09:00	CPI EU Harmonised MoM/YoY (Oct F)	0.3%/-0.9%	0.3%/-0.9%
09:00	CPI Core MoM/YoY (Oct)	--/0.9%	0.1%/0.8%
<b>Events</b>			
00:00	US - Fischer Speaks on Financial Stability and Monetary Policy		
10:00	EMU - ECB's Nowotny, IMF's Deressin Present IMF CEE Outlook		
10:00	EMU - ECB's Constancio speaks in Frankfurt		
18:30	US - Fed's Mester Speaks on Economic Outlook and Monetary Policy		
	Italy - Italy's sovereign debt to be rated by S&P		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,32	-0,02	US	0,88	0,01	DOW	17448 17448,07
DE	0,61	-0,01	DE	-0,35	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,90	0,00	BE	-0,29	0,00	NIKKEI	19597 19596,91
UK	2,02	-0,03	UK	0,68	-0,03	DAX	10782,63 10782,63
JP	0,31	0,00	JP	0,00	0,00	DJ euro-50	3388 3387,70

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	0,004	1,258	1,225	Euribor-1	-0,13	0,00	Eonia EUR	-0,138	-0,007
5y	0,254	1,655	1,546	Euribor-3	-0,08	0,00	Libor-1 USD	0,51	0,51
10y	0,948	2,182	1,974	Euribor-6	-0,01	0,00	Libor-3 USD	0,58	0,58
							Libor-6 USD	0,74	0,74

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,07885 0,0038	EUR/JPY	132,3 0,17		186,4276	1082,88	44,22
USD/JPY	122,66 -0,28	EUR/GBP	0,7086 0,0017	-1d	-1,92	-4,82	-1,76
GBP/USD	1,5216 0,0011	EUR/CHF	1,0806 0,0011				
AUD/USD	0,7127 -0,0022	EUR/SEK	9,3265 -0,01				
USD/CAD	1,3288 0,0038	EUR/NOK	9,3668 0,09				

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