



Sunrise

Tuesday, 16 February 2016

Rates: Core bonds held up well in the face of solid equity gains

Risk-on sentiment remained alive in Asia this morning, helped by hopes on oil agreement and strong Chinese credit data. The eco calendar is not too important, but Fed speakers are a wildcard. All in all, even after yesterday's good bond reaction, bonds may have to give some modest ground today.

Currencies: Dollar rebounds as global tensions ease

Yesterday, the dollar regained ground, as risk sentiment improved. Chinese markets restarted trading in a constructive way after the holiday week. Today, the odds for the dollar look positive as risk-on sentiment stays alive and oil prices are well underpinned. For sterling trading the EU/UK negotiations are key.

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	↗

- In the absence of US investors, **European shares gained 3% yesterday**, extending Friday's rally. This morning, **Asian shares extend their gains**, led by Chinese stocks, gaining 4%.
- Saudi Arabia's oil minister will meet his Russian, Qatari and Venezuelan counterparts in Doha today to discuss the oil market**, according to person familiar with the talks. **The WTI oil price jumped above \$30/barrel this morning, while the Brent is nearing the \$35/barrel level.**
- China's broadest measure of new credit surged to a record in January**, beating market expectations, helped by banks front loading their 2016 lending targets, companies switching foreign currency loans into yuan ones and strong corporate bond issuance.
- In a statement released late yesterday, **the Bank of England rejected criticism from the chief architect of the UK's banking reforms that it had gone soft on UK banks**, denying it has watered down his recommended minimum capital levels for Britain's biggest lenders.
- Yesterday, Spanish deputies set a deadline on March the 3rd for Socialist Party leader Pedro Sanchez to present a government**, as there has been made little progress until now. A failure to reach a government could lead to fresh national elections by mid-year.
- Today, the **eco calendar** contains the German ZEW indicator, UK CPI inflation data, US Empire State index and NAHB housing market sentiment. Fed's Harker & Kashkari are scheduled to speak.

Rates

Core bonds held up well in face of equity strength

Core bonds gain slightly ground despite solid equity gains

Belly curve outperforms

Peripheral spread narrowing continues modestly

Greece & Portugal outperform

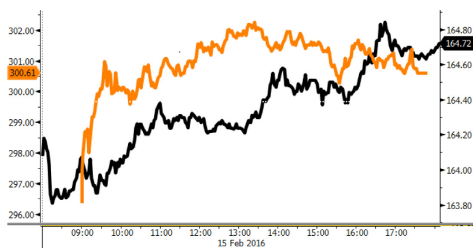
Yesterday, in the absence of US traders (market holiday), German bonds held up well in the face of robust equity gains and slightly higher oil prices. The absence of eco data made the appearance of ECB president Draghi the only focal point in afternoon trading. In front of European parliament, he reiterated the ECB's dovish view by saying that "in the light of recent financial turmoil, the ECB will analyse the state of transmission of our monetary impulses by the financial system and in particular by banks and the impact of oil on price stability. If either of those two factors entail downward risks to price stability, we will not hesitate to act." In a daily perspective, despite juicy equity gains, German yield changes ranged between -0.5 bps (30-yr) and -2.7 bps (5-yr), the belly outperforming the wings. On intra-EMU bond markets, 10-yr yield spreads versus Germany narrowed slightly with Portugal/Greece (-17/18 bps) outperforming.

	US yield	-1d
2	0,7298	0,0161
5	1,2347	0,0291
10	1,7809	0,0345
30	2,6324	0,0299

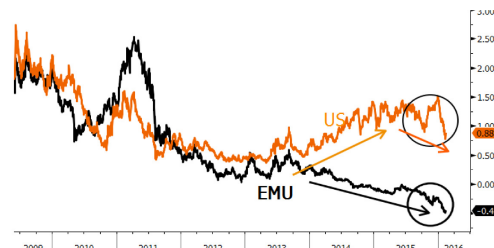
	DE yield	-1d
2	-0,5060	0,0010
5	-0,3110	-0,0290
10	0,2390	-0,0250
30	0,9464	-0,0149

Some sentiment surveys and three fed speakers on agenda

Philly Fed t Harker, Minneapolis Fed Kashkari and Boston Fed Rosengren are scheduled to speak. The former two are newcomers inside the FOMC. They don't vote at the 2016 FOMC meetings, but fully participate at these meetings and contribute to the famous dot plot and other forecasts. Governor Kashkari will hold his first public appearance in a panel discussion about the lessons from the financial crisis. He was Assistant Treasury Secretary overseeing the TARP (programme) during the financial crisis and thus a privileged speaker on the subject. Governor Harker gives his 2016 economic forecast. We hope to get a better insight into their policy orientation (dove-hawk). Boston Fed Rosengren is a dove inside the FOMC and a voter in 2016. We suspect him to give great weight to the recent market turmoil and some signs of economic slowdown. Will he exclude the possibility of a March rate hike?



Bund future (black) and EuroStoxx 600 (orange) (intraday): Bonds move higher despite solid equity gains



OIS swap 1yr/1yr forward: eonia still downwardly oriented, but US OIS also turns down again defying Fed's projected tightening cycle

Downward risks German ZEW and US NAHB housing sentiment

Upside risks NY Empire State manufacturing sentiment

In February, the German ZEW indicator is forecast to have weakened further, from 10.2 to 0. We see downside risks following the Chinese uncertainty and turmoil on financial markets, to which the ZEW indicator is sensitive. The US Empire State index dropped sharply in January, from -6.21 to -19.37, reaching its lowest level since 2009. For February, the consensus is looking for a pick-up to -10.5. In January, most other regional indicators improved somewhat and we expect the Philly Fed index to follow. We see risks for an upward surprise.

The **NAHB housing market index** is expected to stay unchanged at 60 in February. While general conditions remain favourable, headwinds as low inventories and a shortage of skilled workers weigh on the potential for sentiment to improve further. We believe therefore that **risks remain on the downside**.

Today: More resilience despite positive risk sentiment?

R2	167	-1d
R1	166,16	
BUND	164,73	0,6800
S1	163,25	
S2	162,86	

Overnight, Asian risk sentiment remains positive with China outperforming (+3%). Oil prices continue their rebound higher. Higher stocks and higher commodities weigh on the US Note future, but the damage is limited. The Bund will nevertheless probably open somewhat weaker.

Today's eco calendar contains German ZEW (downside risks) and US Empire Manufacturing (upside risks). We don't expect these releases to impact trading in a lasting way. US investors return from yesterday's public holiday. Three different Fed governors speak (see above) and especially Rosengren and Kashkari will likely downplay March rate hike expectations. **Such dovish stance is largely discounted by markets though**. Overall, risk sentiment and technical factors will continue drive trading. Overnight trading suggests positive sentiment which is negative for the Bund, though core bonds kept their composure yesterday. **We keep a close eye on Portuguese bonds as well**. Of late, they've been a good proxy for risk sentiment.

Technically, the end of last week's action on core bond markets suggests a short term trend reversal signal, shrugging off overbought conditions and capping the upside. We'll need confirmation this week though.



German Bund: no longer overbought. Short-term trend reversal?



US Note future: similar technical signal as Bund

Currencies

Dollar rebounds as global sentiment improves

Dollar extends rebound as risk-on rebound continued

R2	1,1495	-1d
R1	1,1376	
EUR/USD	1,1157	-0,0071
S1	1,106	
S2	1,081	

Sentiment on risk remains constructive for a second consecutive day

Strong Chinese credit data and a higher oil prices ease fear for a protracted slowdown.

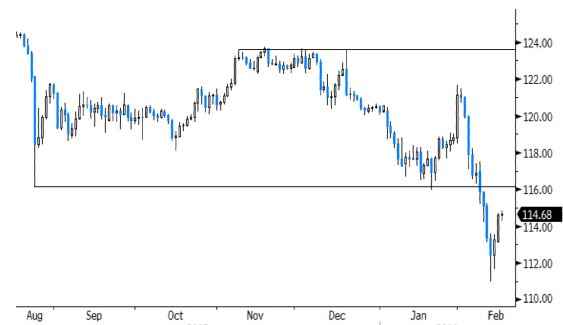
Yuan correction after yesterday's rebound

On Monday, global market extended Friday's risk-on rebound as Chinese markets opened in a constructive way after the Lunar New year holidays. Initially, the rebound was mainly visible in equities. The dollar gained traction later in the session. ECB president Draghi reiterated the bank's readiness to the ease policy further if low import prices or a distortion in the monetary transmission mechanism would entail downside risks to price stability. However, we doubt that the comments from Draghi were the driver behind the EUR/USD decline. USD/JPY rebounded at the same time. EUR/USD closed the session at 1.1156 from 1.1256. USD/JPY closed at 114.60 (from 113.25)

This morning, the investor sentiment remained constructive across Asian markets. Japanese equities show additional gains of 1.5% after yesterday's impressive rebound. Chinese indices outperform with gains of over 3%. Chinese markets are supported by very strong January credit growth figures. Part of the growth in yuan lending might be due to corporates switching USD funding to yuan financing. However, it may also support the real economy. The PBOC fixed the yuan marginally weaker at USD/CNY 6.5130. Both the on-shore (6.5140) and the off-shore yuan (6.5163) are correction lower after yesterday's sharp rebound. Oil and oil-related assets also rebound on planned talks between the Saudi and Russian oil minister on the oil market. Brent oil rebounds to the \$34.75 area. Oil and commodity related currencies like the Canadian dollar (USD/CAD at 1.3760) and the Aussie dollar (AUD/USD at 0.7165) are also well bid. USD/JPY is gaining a few more ticks and trades in the 114.70 area. EUR/USD is little changed and trades around 1.1150.



EUR/USD: correcting lower as dollar profits from risk-on rebound -



USD/JPY: risk-on rebound continues

Eco calendar is modestly interesting

Continuation of the risk-on rebound slightly supportive for the dollar

Today, in Germany, the ZEW investor sentiment is forecast to have weakened further, from 10.2 to 0. We see downside risks following the turmoil on financial markets. The US Empire State index is expected to rebound to -10.5 after a sharp drop in January. We see risks for an upward surprise. The NAHB housing market index is expected to stay unchanged at 60 in February.. At the margin they, may be slightly supportive for the dollar. Sentiment on risk might also remain moderately positive. US equities still have some catching up to do in the wake of yesterday's rebound. Markets will also ponder the impact of ECB's Draghi's comments as he said the ECB will take into account the efficacy of the monetary transmission mechanism when deciding on monetary policy.

We started the week with a cautiously USD positive bias. For EUR/USD, the 1.1060/70 support area is the first target. **We hold on to that view**

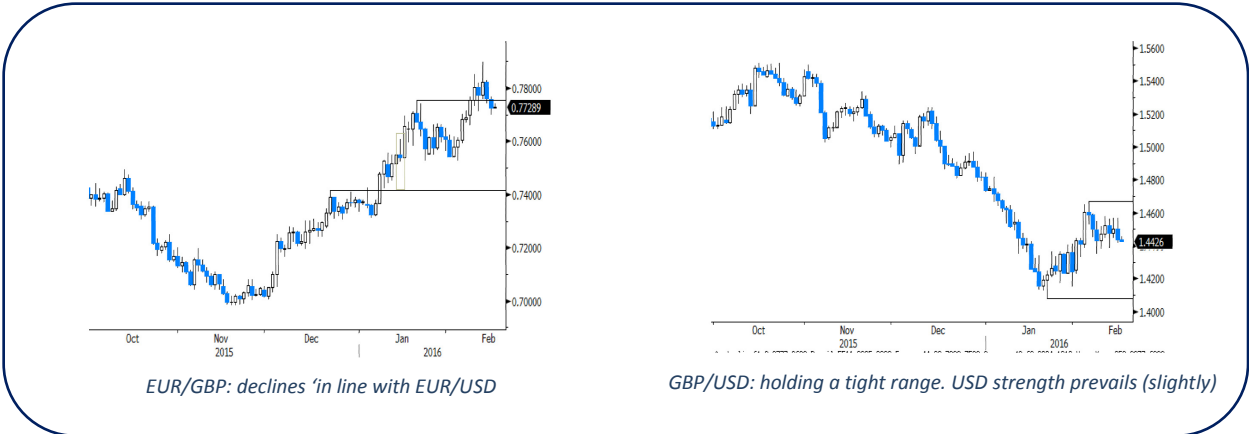
From a technical point of view, EUR/USD broke above the 1.1060/1.1124 resistance area (15 Dec top: 62% retracement). This was USD negative. The short-term correction high stands at 1.1376. Next important resistance kicks in at 1.1495. We see some short-term topping out process in EUR/USD. **USD/JPY dropped below the key 115.98 pre-BOJ low**. Japanese officials warned on potential action and this put a short-term floor. Even so, the pair remains vulnerable if global tensions resurface. **We doubt that the time is ripe for a sustained USD/JPY rebound. Any rally might run into resistance quite soon. The 115.98 previous low is a first technical reference.**

R2	0,8066	-1d
R1	0,7898	
EUR/GBP	0,774	0,0013
S1	0,7661	
S2	0,7526	

Sterling shows mixed picture. Brexit debate lingers

On Monday, sterling trading was order-driven and technical in nature. EUR/GBP lost some ground, but the decline was moderate. Cable drifted back south below the 1.45 big figure as the dollar was slightly better bid across the board. There were plenty of headlines/analysis on the negotiations between the EU and the UK ahead of the EU summit later this week. However, the impact on sterling was limited. EUR/GBP closed the session at 0.7726 (from 0.7762 on Friday). Cable closed the session at 1.4435 (from 1.4505).

Today, the UK price data will be published. The headline CPI is expected at -0.7% M/M to be up 0.3% Y/Y. Core inflation is expected at 1.3% Y/Y (from 1.4% Y/Y). After this month's Policy decision and inflation report, a BoE rate hike is delayed 'sine die', even as BOE governor Carney said that he still expects the next rate move to be a rate hike. The headline CPI is mainly driven by the sharp swings in the oil price. The core inflation is expected quite soft. **So, maybe there are slight upside risks. Even so, today's price data probably won't have a big impact on sterling unless there is a really big surprise.** Tomorrow's labour data (especially wage growth) will probably be more important as a driver for sterling. Even more, the data will be overshadowed by the UK/EU negotiations. Uncertainty on the outcome will prevent a sustained sterling rebound. **We stay cautious on further sterling gains until there is more clarity on this issue.**



Calendar

Tuesday, 16 February		Consensus	Previous
US			
14:30	Empire Manufacturing (Feb)	-10.50	-19.37
16:00	NAHB Housing Market Index (Feb)	60	60
22:00	Total Net TIC Flows (Dec)	--	-\$3.2b
22:00	Net Long-term TIC Flows (Dec)	--	\$31.4b
UK			
10:30	CPI MoM/YoY (Jan)	-0.7%/0.3%	0.1%/0.2%
10:30	CPI Core YoY (Jan)	1.3%	1.4%
10:30	PPI Input NSA MoM/YoY (Jan)	-1.2%/-8.6%	-0.8%/-10.8%
10:30	PPI Output NSA MoM/YoY (Jan)	-0.2%/-0.9%	-0.2%/-1.2%
10:30	PPI Output Core NSA MoM/YoY (Jan)	0.1%/0.0%	0.2%/0.1%
10:30	ONS House Price YoY (Dec)	--	7.7%
EMU			
08:00	EU27 New Car Registrations (Jan)	--	16.6%
11:00	ZEW Survey Expectations (Feb)	--	22.7
Germany			
11:00	ZEW Survey Current Situation (Feb)	55.0	59.7
11:00	ZEW Survey Expectations (Feb)	0.0	10.2
Italy			
10:00	Trade Balance Total (Dec)	--	4409m
Norway			
06:30	Consumer Confidence (1Q)	-10.0	-11.3
10:00	GDP QoQ (4Q)	-0.4%	1.8%
10:00	GDP Mainland QoQ (4Q)	0.1%	0.2%
Events			
10:00	Germany's Constitutional Court Holds Hearing on Case against ECB's OMT		
14:30	Fed's Harker Speaks on Economy at University of Delaware		
16:30	Fed's Kashkari Delivers First Public Speech at Brookings		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,78	0,03	US	0,73	0,02	DOW	15974 15973,84
DE	0,24	-0,03	DE	-0,51	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,62	-0,07	BE	-0,41	-0,01	NIKKEI	16054 16054,43
UK	1,43	0,02	UK	0,36	-0,01	DAX	9206,84 9206,84
JP	0,05	-0,04	JP	-0,18	0,00	DJ euro-50	2834 2833,87

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,243 -0,003
3y	-0,100	0,891	0,824	Euribor-1	-0,24	0,00	Libor-1 USD	0,51 0,51
5y	0,057	1,154	0,997	Euribor-3	-0,18	0,00	Libor-3 USD	0,59 0,59
10y	0,636	1,614	1,432	Euribor-6	-0,12	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1157	-0,0071	EUR/JPY	127,75	-0,05		160,3628	1197,5	34,74
USD/JPY	114,54	0,69	EUR/GBP	0,774	0,0013	-1d	5,35	-20,70	1,43
GBP/USD	1,4408	-0,0117	EUR/CHF	1,1022	0,0025				
AUD/USD	0,7152	0,0001	EUR/SEK	9,4637	0,01				
USD/CAD	1,3774	-0,0037	EUR/NOK	9,6013	-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.

