



Sunrise

Thursday, 14 January 2016

Rates: Core bonds easily digest huge supply

Core bonds traded stable to higher amid an avalanche of new bond supply, but helped by crashing US bonds and oil prices (hit by inventory data). Amid a nearly empty eco calendar today, bond markets will be driven by risk sentiment, more heavy bond supply, oil prices and minutes of the ECB meetings. We hold a neutral view.

Currencies: dollar gave back intra-gains with US equities sell-off

In a daily perspective the dollar was little changed against the majors. Overnight, the dollar is better bid against euro and yen but gains are still insignificant. Sterling remains in the ropes against euro and dollar. What will the Minutes tell us? Key levels are being heavily tested.

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	↗

- The sell-off in the oil price weighed on sentiment yesterday with the **S&P showing its biggest one-day drop since the start of the year (-2.5%)**. Losses for the Nasdaq were even bigger (-3.4%) and also the Dow is nearing correction mode.
- This morning, most **Asian shares trade lower too** as the sell-off in the oil price and multiple blasts in Jakarta weigh. The Nikkei lost more than 2.5%, while Chinese stocks outperform, gaining up to 4% (official buying?).
- **The oil price was hit by a new selling wave during the US session yesterday after oil inventories were released.** The Brent dropped temporarily below the \$30/barrel level, but is trading slightly above this morning. The WTI oil price managed to stay above the \$30/barrel level. **The Canadian dollar fell to its lowest level since 2003** as the oil price extended losses.
- **US economic activity continued to expand in most districts**, the Fed's **Beige Book** showed yesterday evening. While the labour market continued to improve moderately, wage increases were cited as flat to moderate and price increases tended to be minimal, the Beige Book continued.
- **Japanese core machinery orders tumbled the most in 18 months in November** after solid gains in the previous months, raising fears that the global economic slowdown might dampen activity for Japanese firms. The poor data weighed on Japanese stocks this morning.
- Today, the **eco calendar is thin** today with only the US jobless claims data. The **Bank of England will decide on rates** and the ECB will publish the Minutes of its latest monetary policy meeting. The **Eurogroup meets** in Brussels and Intel and JP Morgan will announce Q4 **earnings**.

Rates

Core bonds end session higher, despite huge supply, but helped by crashing equities and oil prices during US dealings.

	US yield	-1d
2	0,9152	-0,0243
5	1,5283	-0,0360
10	2,0926	-0,0369
30	2,876	-0,0264

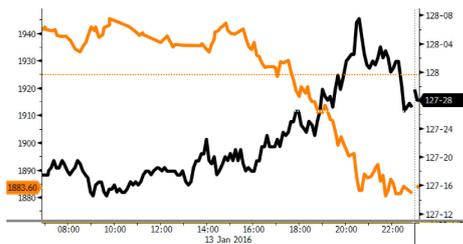
	DE yield	-1d
2	-0,3790	0,0030
5	-0,1291	-0,0246
10	0,5089	-0,0276
30	1,3039	-0,0536

Core bonds easily digest huge supply

Global core bonds traded stable to higher with German Bunds outperforming US Treasuries. Strong equities, rising oil prices and a heavy supply calendar couldn't pull bonds lower in the morning session, confirming the strong positive Bund sentiment of late. During the US equity session, US equities slid lower from start to (almost) finish, closing 2.5% lower. Oil prices took their usual beating around 4:30 pm CET when oil inventories turned out higher. The rise of US Treasuries was strong, but not irresistible, as record supply flood the market. Besides the German, Italian and Belgian EMU sovereign supply in the morning session, there was a \$21B well bid 10-yr Note auction and a giant \$46B InBev deal with order book over \$100B. Commentators put the total daily issuance at over \$100B. **US Treasuries fell prey to some profit taking at the very end of the session, keeping some shine off their performance. However, given supply, it's a vote of confidence in core bonds. Boston Fed governor Rosengren confirmed his dovish stance, saying that there are downside risks to the FOMC's forecasted rate path. His dovish buddy, Chicago Fed Evans, echoed that message.**

In a daily perspective, US yields shifted 0.1 bp higher (30-yr) to 1.5 bps lower (5-yr). The German yield curve bull flattened with yields 0.1 bp (2-yr) to 4.3 bps lower (30-yr) The new 10-yr German Bund benchmark was evidently 3.4 bps higher. On intra-EMU bond markets, 10-yr yield spreads versus Germany were close to unchanged (taking into account German benchmark change) with Spain, Portugal and Italy slightly outperforming and Greece underperforming.

The **eco calendar remains thin** today with only the US jobless claims. In the euro area, the Eurogroup meeting might be interesting. The BoE holds its MPC meeting and the **ECB publishes the Minutes of its latest meeting**. It was the meeting Draghi under delivered. We will be looking for traces of discord inside the Council. BoE Bailey and Fed Bullard are scheduled to speak. Fed Bullard in past years turned from dove to hawk. He votes in 2016 and it will be interesting how he assesses current market turmoil and the mixed US eco data. Following a sharp uptick at the end of last year, **US initial jobless claims** dropped lower in the week ending the Jan 2. For this week's data, the consensus is looking for a limited drop, from 277 000 to 275 000. We believe that the risks are for a downward surprise due to extremely favourable seasonal adjustment factors.



T-Note future (black) and Brent future (orange): Nice inverse relationship with some end-of day profit T Note. Strong performance bonds as total new supply topped \$100B



S&P: Technical picture deteriorates: below 200 ma, but now threatening 1871 and 1820 support. Drop below might signal "official sign" bear market. (double top formation)

New 10y Portugal, Spanish taps and US bond auction

The Spanish treasury taps the on the run 3-yr Bono (0.25% Apr2018) & 5-yr Bono (1.15% Jul2020) and the off the run 10-yr Obligacion (5.4% Jan2023) for €4-5B. Spain is very active this week following a stellar new 10y syndicated benchmark on Tuesday (€9B printed, order books over €27B). This suggests sufficient appetite for Spanish debt. On secondary markets, bonds on offer cheapened in ASW-spread terms and the Jan2023 Obligacion is cheap on the Spanish curve. The Portuguese debt agency announced a new syndicated 10-year benchmark (July2026) which will most likely be launched today. In the US, the Treasury continued its mid-month refinancing operation with a very strong \$21B 10-yr Note auction. The auction stopped far below the 1:00 PM bid side with a strong bid cover (2.77). Bidding details showed a very strong indirect bid and a good direct bid. Later today, the US Treasury holds a \$13B 30-yr Bond auction. Currently, the WI trades at 2.87%.

R2	161,71	-1d
R1	160,66	
BUND	160,01	0,5900
S1	156,4	
S2	154,54	

Today: Safe haven bid for bonds?

Overnight, most Asian equities trade up to 2.5% lower (Japan) with China outperforming (1.5% to 3% higher) following a significantly weaker opening (-3.5%!). Smells like government interventions... CNH is back under downward pressure, there were multiple bomb blasts in Jakarta and Brent oil price dropped temporary below \$30/barrel for the first time since 2004. The US Note future trades stable tough. **European equities are off for a weak opening, which might support the Bund in combination with the low oil price.**

Today, the eco calendar contains US weekly jobless claims (no market mover) and Minutes of the December ECB meeting. It will be interesting to see how strong the inside call was to ease policy more than eventually decided on. In light of recent market turmoil, more and more ECB governors held very dovish speeches (eg chief economist Praet) without promising more easing yet. **Dovish Minutes could reinforce bets on another deposit rate cut and support core bonds. Risk sentiment and evolutions on commodity markets could trigger more intraday gyrations.** At the start of the week, we've put our sell-on-up ticks strategy on hold, at least until risk sentiment improves



German Bund: Sideways trading range.



US Note future: Dovish reaction on payrolls suggests that Asian/Chinese turmoil is key for markets at this stage.

Currencies

Dollar reacted muted to the reversal in global risk sentiment late in the session and closed the session nearly unchanged.

R2	1,106	-1d
R1	1,097	
EUR/USD	1,087	0,0040
S1	1,0711	
S2	1,0524	

China driven uncertainty isn't over yuan

Yuan declines even as PBOC keeps yuan fixing again little changed

Commodity currencies stay under pressure

Eco calendar only modestly attractive

Technical dollar trading likely

Dollar holding tight ranges despite China driven swings

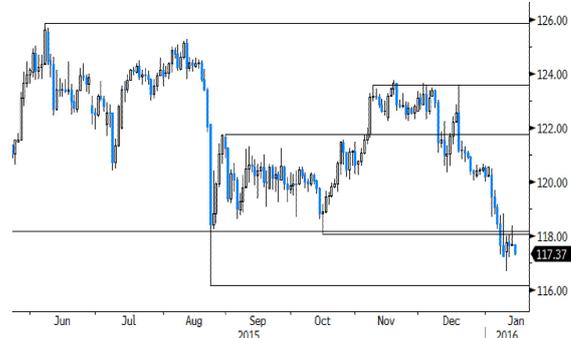
On Wednesday China-driven tensions eased during the European session. The risk-on sentiment caused temporary modest USD gains, but the move didn't go far. Even more, sentiment on risk deteriorated in the US. US equities even closed the session with losses between 2% and 3%. This caused the dollar to reverse the intraday gains. The US currency even closed the session with slight losses, EUR/USD finished the trading day at 1.0877 (from 1.0858). USD/JPY closed at 117.68, almost unchanged from the previous close of 117.65. So, moves in the major USD cross rates were small given the swings in equities.

Overnight, most Asian equities show substantial losses. Japan underperforms (losses of 2.5%+). That said, the damage on other Asian markets and in China (gains up to 3.0%) could have been worse given the sharp decline in the US. As was the case over the previous days, the PBOC kept the fixing of the onshore yuan little changed. However, the offshore and the onshore yuan are losing ground this morning. The Hong Kong dollar is also under pressure and trades at the lowest level since March last year. Brent oil dropped below \$30/b. The commodity currencies are also under pressure. AUD/USD trades again below 0.70 (0.6950 area). NZD/USD dropped below 0.65. The Canadian dollar set a minor new multi-year low against the US dollar. As was the case earlier this week, the moves in the likes EUR/USD (currently 1.0883) and USD/JPY (currently 117.50) are modest given the big swings in equities and the global uncertainty.

Today, the eco calendar is again only moderately interesting. The German statistical office will give a first estimate of the overall 2015 GDP growth. In the US the import prices and the weekly jobless claims will be published. We expect the data to be only of intraday significance for USD trading, at best. So USD traders will again look for guidance from global market moves, even as the direct impact on the dollar was modest of late.



EUR/USD holding tight ranges despite swings in global risk sentiment



USD/JPY: looking for a bottom

In a day-to-day perspective, the price action on the US equity markets yesterday evening and in Asia this morning suggests that the China-induced market turmoil isn't over yet. In theory, this is a negative for the dollar. However, over the previous days USD/JPY and EUR/USD held within relatively

tight ranges, despite the swings in global sentiment. It is still early days, but US equity futures currently also indicate no further losses. Our best guess is that the stalemate in EUR/USD and USD/JPY might persist today; maybe with the risk of some limited intraday loss for the dollar. However, we see no trigger for the dollar to break out off the recent well-established ranges. We still look/prefer to sell EUR/USD higher in the trading range (closer to 1.10/1.11).

From a technical point of view, EUR/USD failed to regain important resistances at 1.1087 (breakdown) and 1.1124 (62% retracement from the October high). Last week, EUR/USD failed to sustain below 1.0796 support (07 Dec low). Next support is at 1.0650 (76% retracement off 1.0524/1.1060) and at 1.0524. On the topside, 1.1004 (reaction top) is a first reference. Next resistance comes in at 1.1060/1.1124 (15 Dec top/62% retracement) **The picture for USD/JPY remains negative below 120**. Next support comes in at 116.18 (August low). The pair moved into oversold territory and now tries to put a bottom in place .

How much BoE softness is discounted in sterling?

R2	0,7715	-1d
R1	0,7593	
EUR/GBP	0,754	0,0046
S1	0,7424	
S2	0,7313	

Yesterday there were no UK eco data to guide sterling trading. Sterling initially profited slightly from the improvement in global sentiment. **However as was the case for the dollar cross rates, the 'risk-on' gains of sterling couldn't be extended. Sterling even lost a big part of the earlier gains as risk-off returned and as oil declined. Investors remained also reluctant to be long sterling into today's BoE decision/minutes.** EUR/GBP closed the session at 0.7550 (from 0.7516 on Tuesday). Cable ended the trading session at 1.4407 (from 1.4448). So, the UK currency held within reach of the recent lows

Today, the BoE will decide on its policy and at the same time announce the Minutes of the meeting. **The policy rate and the stock of asset purchases are widely expected to remain unchanged**. Since the December meeting most UK activity data show some loss of momentum, with retails sales the exception to the rule. Wage growth disappointed even as employment continued to expand. Headline inflation was unchanged at 0.1% Y/Y, but the further decline in oil prices suggests that inflation can stay low for longer than anticipated until now. **The decline of sterling is one of the only factors pointing in the other direction regarding the inflation risks**. However, the broader picture suggests that the risks to the BoE inflation scenario are tilted further to the downside. So, the BoE can hold a soft tone and hold its wait-and-see approach. Markets will look out whether BoE's McCafferty will still vote for a rate hike.

Regarding sterling trading, we assume that a soft BoE scenario is more or less discounted at current levels of sterling and for short-term interest rates. However, aside from the BoE rate hike expectations, the uncertainty on Brexit and global sentiment are also important drivers for sterling. As these issues won't be solved anytime soon, we don't see a trigger for a sustained sterling rebound. The medium term technical picture of sterling against the euro remains negative as EUR/GBP broke above the 0.7493 Oct top. **Next resistance stands at 0.7593 (Feb 2015 top)**. Sterling is in oversold territory against the euro and the dollar, but it is no good enough a reason to rush into sterling longs yet.

Calendar

Thursday, 14 January		Consensus	Previous
US			
14:30	Import Price Index MoM/YoY (Dec)	-1.3%/-8.4%	-0.4%/-9.4%
14:30	Initial Jobless Claims	275k	277k
14:30	Continuing Claims	2210k	2230k
Japan			
00:50	Machine Orders MoM/YoY (Nov)	A: -14.4%/1.2%	10.7%/10.3%
00:50	PPI MoM/YoY (Dec)	A: -0.3%/-3.4%	-0.1%/-3.6%
07:00	Machine Tool Orders YoY (Dec P)	--	-17.7%
UK			
13:00	Bank of England Bank Rate / Asset Purchase Target	0.50%/375B	0.50%/375B
Germany			
08:00	Wholesale Price Index MoM/YoY (Dec)	--/--	-0.2%/-1.1%
10:00	GDP NSA YoY (2015)	1.7%	1.6%
Italy			
10:00	Industrial Production MoM YoY (Nov)	0.2% / 2.5%	0.5% / 2.9%
Sweden			
09:30	CPI MoM/YoY (Dec)	0.2%/0.1%	-0.2%/0.1%
09:30	CPI CPIX MoM/YoY (Dec)	0.2%/1.0%	-0.1%/1.0%
09:30	Average House Prices (Dec)	--	2.489m
Events			
12:00	BoE's Bailey Speaks in London		
13:30	ECB Minutes of the monetary policy meeting		
14:30	Fed's Bullard Speaks to Economic Club of Memphis		
15:00	Eurogroup Meeting in Brussels		
Spain	Auction (€4-5B 0.25% Apr2018, 1.15% Jul2020 Bono & 5.4% 2023 Obligacion) (10:30)		
US	30-year bond auction (\$13B) (19:00)		
Before market open	Q4 earnings release of JPMorgan Chase & Co		
After market open	Q4 earnings release of Intel Corp		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,09	-0,04	US	0,92	-0,02	DOW	16151 16151,41
DE	0,51	-0,03	DE	-0,38	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,86	-0,03	BE	-0,34	0,00	NIKKEI	17241 17240,95
UK	1,74	-0,01	UK	0,48	0,00	DAX	9960,96 9960,96
JP	0,23	0,02	JP	-0,02	0,00	DJ euro-50	3073 3073,02

						USD		td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,237	-0,004
3y	-0,013	1,151	1,075	Euribor-1	-0,22	0,00	Libor-1 USD	0,51	0,51
5y	0,229	1,441	1,336	Euribor-3	-0,14	0,00	Libor-3 USD	0,59	0,59
10y	0,856	1,929	1,766	Euribor-6	-0,05	0,00	Libor-6 USD	0,75	0,75

Currencies	-1d		Currencies	-1d		Commoditie	CRB	GOLD	BRENT
EUR/USD	1,087	0,0040	EUR/JPY	128,15	0,18		162,0748	1090,76	30,35
USD/JPY	117,89	-0,31	EUR/GBP	0,754	0,0046	-1d	-2,16	6,00	-0,65
GBP/USD	1,4411	-0,0033	EUR/CHF	1,0957	0,0076				
AUD/USD	0,6958	-0,0061	EUR/SEK	9,2675	0,01				
USD/CAD	1,4345	0,0099	EUR/NOK	9,5927	-0,03				

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