



## Sunrise

Friday, 16 October 2015

### Rates: US Treasuries fall on stronger eco data, but largely ignore equity rebound

German bonds ended virtually unchanged helped by Nowotny's hint that the ECB should ease policy again to push inflation higher. Can stocks hold on to yesterday's dubious gains? Given Monday morning's important Chinese eco releases (including GDP), core bonds could profit from some safe haven flows going into the weekend.

### EUR/USD returns south on soft ECB speak and better US eco data

Yesterday, USD trading showed a mixed picture. EUR/USD tested the 1.1460/1.15 area. The test was rejected. Soft ECB speak and better US eco data triggered profit taking on the recent EUR/USD rally. USD/JPY dropped to the low 118.00 area, but this test was also rejected. Today, the focus remains on the US eco data. The technical picture for sterling improved.

### 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** kept their good momentum going after a solid opening, ending a two-day losing streak with gains on all indices. **US equities** traded straight up, closing with proper gains. Overnight, **Asian equities' performance is rather poor given WS strength.**
- **US Federal governor William Dudley said he does not need to see an actual rise in inflation before hiking.** He is confident that falling unemployment will lead to rising prices. He warned though that the US economy may be slowing.
- **Federal reserve official Loretta Mester believes that the US economy can handle its first interest rate** and finds it appropriate for monetary policy to take some steps back. Ms Mester will become a voting member from January.
- **Fitch has downgraded Brazil's credit rating a notch from 'BBB' to 'BBB-',** due to the difficult political environment which doesn't aide the economy out of potentially the deepest recession in more than 25 years.
- **The RBA warned** that lending standard for home loans had been looser than initially thought, increasing **the risks of an eventual downturn in the housing market.** RBA has been **reluctant to cut its rates** further, amongst others fearing to overstimulate the housing market.
- Overnight, **Brent crude** rallied back above the 50\$/barrel mark. Metal prices are close to unchanged.

# Rates

*US Treasuries hit by stronger eco data*

*“Mysterious” risk rally in US afternoon trading*

	US yield	-1d
2	0,5968	0,0321
5	1,3276	0,0326
10	2,0122	0,0123
30	2,8561	0,0015

	DE yield	-1d
2	-0,2610	-0,0070
5	-0,0300	0,0070
10	0,5590	0,0110
30	1,3370	0,0210

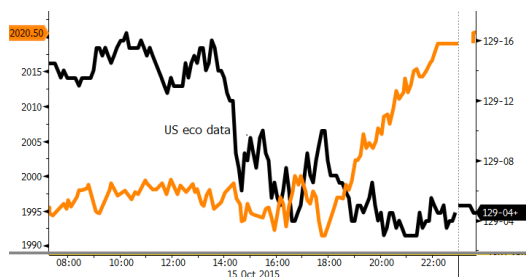
*Dudley still on same page as Yellen, but lift-off depends on the eco data.*

*Fed Mester looks more inclined to go ahead with the lift-off this year.*

## US Treasuries suffer from higher US CPI data

Global core bonds traded mixed yesterday. The Bund was nearly unchanged while US Treasuries suffered losses following higher inflation data and lower claims. They returned the gains eked out on Wednesday’s disappointing retail sales and PPI. Evidently the shorter end of the curve took the brunt of the hit. The “outperformance” of German bonds may be partly due to very dovish talk of Nowotny, who clearly suggested the ECB needs to do more and with new instruments. Finally, US equities (and commodities) rallied sharply in the US afternoon session. It isn’t very clear what triggered the risk rally. While US Treasuries ended near the intraday lows, the additional losses on the equity rally were contained. Fed speak was interesting, but couldn’t really impact the market (see lower). In a daily perspective, the US yield curve shifted 2.8 bps (30-yr) to 6.3 bps (5-yr) higher. Changes on the German yield curve varied between flat (2-yr) and +1.1 bps (10-yr). On intra-EMU bond markets, 10-yr yield spreads versus Germany ended nearly unchanged (maximum +2 bps).

NY Fed Dudley and Cleveland Fed Mester kept open the possibility of a Fed lift-off by the end of the year. Dudley acknowledged the softness of retail sales and the slowing of the economy, but there is still a lot of data before the end of the year. Contrary to two of his colleagues, **Dudley is still on the same page as Yellen**. If the labour market further improves, it is not necessary to see actual inflation higher (as it is presumed that tight labour market leads to higher wages and thus ultimately to inflation). **What’s unclear right now is the economy. Concluding, Dudley still thinks the lift-off may occur this year if data between now and the end of the year are strong enough. Fed Mester looked more inclined to trigger the lift-off this year unless the economy really slows sharply.** She said that the economy can handle a rate rise. If the Fed waits too long, it will have to hike faster. She said US is near full employment. She is relatively confident that inflation will move up over time.



T-Note future (black) & S&P future (orange): Eco data push T-Note future lower, but late equity rally has little impact on bonds



US 10-yr yield still testing 2% barrier, as stronger eco data and strong equities have only limited impact for third time.

*Downward risks US production*

*Consumer confidence expected to rise slightly.*

**Only US eco data on calendar**

The September **US industrial production** is expected to decline by 0.2% M/M, coming from -0.4% M/M in August. We see downward risks to the consensus, mainly based on the lower average hours worked. The JOLTS job opening is expected to have increase to 5580 in August, coming from 5753 the previous months. We don't forecast this number. The **University of Michigan Sentiment** for October is expected to rise to 89, coming from 87.2 last month. Our expectations are in line with the consensus expectations. For the euro area, it will be interesting what ECB's Jazbec tells us about the policy outlook.

R2	160,62	-1d
R1	157,67	
<b>BUND</b>	<b>156,66</b>	0,0000
S1	155,77	
S2	153,5	

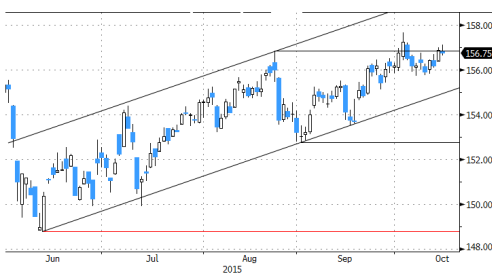
**Today: Cautiousness ahead of Chinese GDP?**

**Overnight**, Asian stock markets trade mixed with Japan and China outperforming. Given yesterday's WS strength (+1.5%), the Asian performance is poor. There was little news to guide trading. The US Note future is marginally higher, but we expect a fairly neutral Bund opening.

**Today's eco calendar is thin with only US industrial production and Michigan consumer sentiment. Risks for IP are on the downside of expectations which is slightly (because outdated) positive for core bonds.**

Risk sentiment on equity markets and evolutions on commodity markets play a role as well. Can stocks sustain yesterday's dubious rally? Ahead of the weekend and given Monday morning's Chinese data releases (including GDP), core bonds might attract some safe haven flows. **So overall, we have a positive bias for bonds today.** Technically, the US Note future is close to the contract high (130-00+) with the US 10-yr yield back at the psychological 2% mark with key support at 1.96% (62% retracement Feb to June rally).

After the dovish September FOMC meeting, we eyed a return to the contract high for the US Note future, but we didn't anticipate a break higher. That last assumption is under new pressure as markets push a Fed lift-off well into 2016, while also anticipating additional QE by the ECB. A new decline in equity/commodity prices could further fuels core bonds at this stage. **We are neutral for core bonds. A test of the contract highs is very likely.**



*German Bund: test upper bound failed and back in ST range. Longer term uptrend still intact.*



*US Note future: New test of high likely*

# Currencies

*EUR/USD hammered by soft ECB comments and better than expected US data.*

R2	1,1714	-1d
R1	1,1495	
<b>EUR/USD</b>	<b>1,13815</b>	<b>-0,0107</b>
S1	1,133	
S2	1,1087	

*Asian equities show moderate gains. USD trades mixed.*

*EMU and US eco data might fail to provide a clear picture for USD trading today.*

## Dollar rebounds on ECB talk and better US data

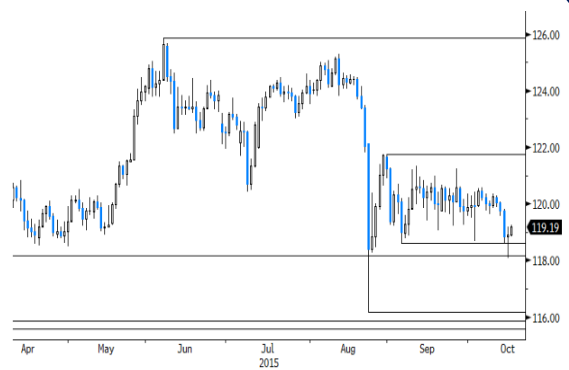
On Thursday, EUR/USD reversed Wednesday's gains. The move was partly euro weakness triggered by dovish comments of ECB Nowotny. Later in the session, the dollar profited from a higher than expected US CPI & lower than expected initial claims. EUR/USD closed the session at 1.1386, down from 1.1474 on Wednesday. USD/JPY had a volatile session yesterday. The pair was hit by risk-off sentiment early in the session. A sharp decline in EUR/JPY weighed on the headline pair, too. USD/JPY dropped temporary to the 118.07 area, but rebound after the US data releases as equities rebounded. The pair closed the session at 118.90 little changed from 118.83.

**Overnight**, Asian equities trade mixed. Japan outperforms, but the gains are modest given the rebound yesterday in the US. USD/JPY regained the 119 big figure and trades currently in the 119.15/20 area. The modest risk-on rally in Asia this morning leaves EUR/USD little changed. The pair trades in the 1.1380 area. The recent commodity driven rebound of the Aussie dollar looks like its running into resistance. AUD/USD is drifting back south below the 0.73 mark. Asian markets are looking forward to Chinese GDP data, scheduled for release Monday morning.

**Today**, the EMU August trade balance and the final September CPI will be published. The final EMU headline CPI is expected at -0.1% Y/Y, the core CPI at 0.9% Y/Y. A downward revision could be a slightly negative for the euro, especially in the run-up to the ECB policy meeting next week. In the US, the **industrial production, JOLTS job openings and consumer confidence from the university of Michigan will be published**. We see downside risks for the US production. The consensus expects Michigan consumer confidence to decline from 87.2 to 85.5. for this indicator, we don't have strong arguments to take a different view from the consensus.



EUR/USD: Test of 1.1460/1.15 area rejected



USD/JPY: 118 support area holds, for now

**Global markets struggle to assess the health of the global economy and its impact on monetary policy.** Of late (currency) markets were focused on the impact of weaker US data on the Fed rate hike path. This makes the dollar vulnerable short term even as the ECB might also ease policy further if economic conditions deteriorate further.

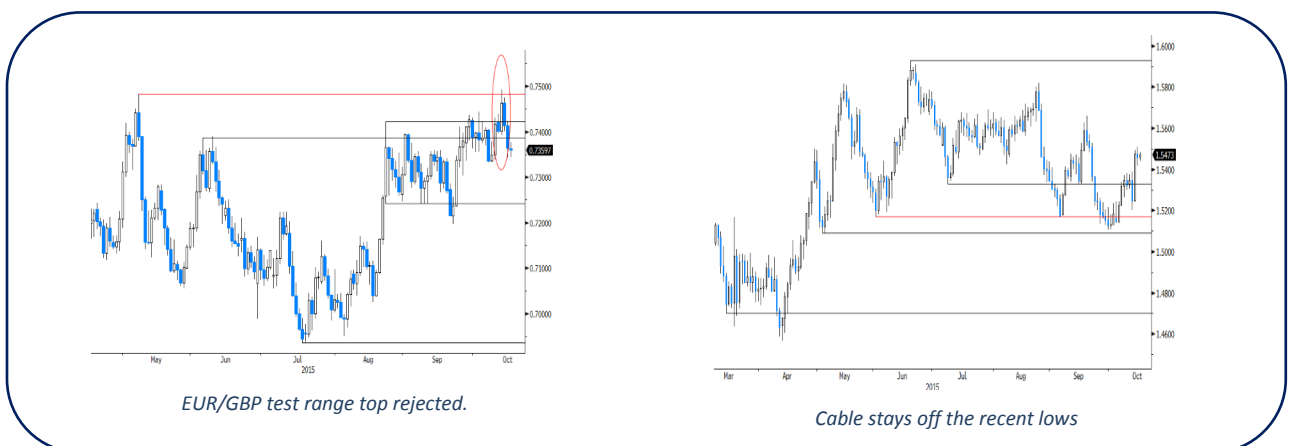
Yesterday's comments from ECB's Nowotny to some extent restore to balance of softness and blocked the rebound of EUR/USD. The 1.1460 resistance was extensively tested, but finally the test was rejected. For today, we don't see a clear signal from the data for USD trading. Will there be some end of week profit taking in equities after yesterday's remarkable rebound. If so, it might be a slight negative for the dollar. The jury is still out, but after yesterday's euro setback, the topside in EUR/USD is probably better protected going into next week's ECB meeting. The 1.1460/1.1495 might be a tough resistance short-term. **If the policy divergence between the Fed and the ECB becomes less obvious, EUR/USD may return toward the August correction high at 1.1719. USD/JPY looks more vulnerable to a delay in the Fed risk-off and/or rising volatility.**

R2	0,7592	-1d
R1	0,7493	
<b>EUR/GBP</b>	<b>0,7356</b>	-0,0065
S1	0,7333	
S2	0,7196	

### Sterling in better shape

On Wednesday, a decent UK labour market report to put a floor for sterling, both against the euro and the dollar. Yesterday, sterling extended its rebound against the euro and preserved most of its gains against the dollar even as there were no important eco data in the UK. During the morning trade, cable held a tight range mostly in the upper half of the 1.54 big figure. **The euro made a step backward as ECB Nowotny suggested that the ECB should ease its policy further as it is clearly missing its inflation target.** EUR/GBP declined back below the 0.74 level. Later in the session, cable and EUR/GBP were driven by technical trading and by the swings of the dollar. EUR/GBP went for another down-leg as cable fell less than EUR/USD on the US eco data. EUR/USD trades currently at around 0.7370. Cable trades in the 1.5435 area.

**Today**, there are again no important eco data in the UK. So sterling trading will again be driven by **technical considerations and by the price swings in the major dollar cross rates**. The downside in sterling looks now better protected, but we don't see a trigger right now for an extensions of the recent rebound. **From a technical point of view**, EUR/GBP still trades in the upper part of the sideways range capped by 0.7483/0.7333. The latter was extensively tested earlier this week. Sustained trading north of 0.7483 would deteriorate the short-term picture of sterling. This is not our preferred scenario. The topside of EUR/GBP looks better protected.



# Calendar

Friday, 16 October		Consensus	Previous
<b>US</b>			
15:15	Industrial Production MoM (Sep)	-0.2%	-0.4%
15:15	Capacity Utilization (Sep)	77.3%	77.6%
15:15	Manufacturing (SIC) Production (Sep)	-0.2%	-0.5%
16:00	JOLTS Job Openings (Aug)	5580	5753
16:00	U. of Mich. Sentiment (Oct P)	89.0	87.2
16:00	U. of Mich. 1 Yr Inflation (Oct P)	--	2.8%
16:00	U. of Mich. 5-10 Yr Inflation (Oct P)	--	2.7%
22:00	Net Long-term TIC Flows (Aug)	--	\$7.7b
<b>Canada</b>			
14:30	Manufacturing Sales MoM (Aug)	-1.0%	1.7%
<b>EMU</b>			
08:00	EU27 New Car Registrations (Sep)	--	11.2%
11:00	Trade Balance SA (Aug)	22.1b	22.4b
11:00	CPI MoM/YoY (Sep)	0.2%/-0.1%	0.0%/-0.1%
11:00	CPI Core YoY (Sep F)	0.9%	0.9%
<b>Events</b>			
8:35	Japan – Bank of Japan Governor Kuroda speaks in Tokyo		
11:45	EMU - ECB's Jazbec Speaks at Conference in Warsaw		
12:30	UK - Bank of England's Kristin Forbes speaks in Brighton		
13:30	EC - ECB's Coeure Speaks at German Parliament in Berlin		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,01	0,01	US	0,60	0,03	DOW	17142 17141,75
DE	0,56	0,01	DE	-0,26	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,89	0,02	BE	-0,19	0,01	NIKKEI	18248 18247,71
UK	1,78	0,02	UK	0,50	0,01	DAX	10064,8 10064,80
JP	0,32	0,00	JP	0,01	0,00	DJ euro-50	3239 3238,81

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,143 -0,008
3y	0,111	0,937	1,075	Euribor-1	-0,11	0,00	Libor-1 USD	0,51 0,51
5y	0,340	1,329	1,378	Euribor-3	-0,05	0,00	Libor-3 USD	0,58 0,58
10y	0,945	1,944	1,821	Euribor-6	0,03	0,00	Libor-6 USD	0,75 0,75

Currencies	-1d		Currencies	-1d		Commoditie	CRB	GOLD	BRENT
EUR/USD	1,13815	-0,0107	EUR/JPY	135,58	-0,89		199,8289	1176,8	50,2
USD/JPY	119,16	0,33	EUR/GBP	0,7356	-0,0065	-1d	0,00	-8,40	0,87
GBP/USD	1,5464	-0,0009	EUR/CHF	1,0838	-0,0064				
AUD/USD	0,7284	-0,0037	EUR/SEK	9,3633	0,05				
USD/CAD	1,2878	-0,0034	EUR/NOK	9,2100	-0,03				

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