



Sunrise

Monday, 12 October 2015

Comeback stocks & commodities continues, but losses core bonds contained

Global core bonds traded narrowly mixed on Friday. US Treasuries eked out slight gains at the longer end of the curve, while the German curve bear steepened. Yield changes were limited though. Today, US bond markets are closed and eco calendar is empty. Equities will drive bonds. We favour sideways trading.

Dollar on the defensive

On Friday, the dollar came under moderate pressure, even as sentiment on risk stayed constructive. Currency markets apparently don't give much credence to recent Fed speak that a rate hike in 2015 is still likely. Today, the calendar is thin. Trading will be technical in nature. The EUR/USD 1.1460 resistance is coming on the radar.

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** closed Friday's trading in the green, with basic resources being the outperformers. **US equities** trading was uneventful (marginal gains).
- Overnight, **Chinese equities** are making serious gains catching up on the global stock rally of last week. Chinese equities are currently up 3-4%.
- **Federal Reserve Vice Chairman Stanley Fischer said that a rate hike in 2015 is still his favourite, but it is rather an expectation, not a specific commitment.** The Fed remains data-dependent
- **Bank of Japan governor Kuroda does not see the need for more stimulus,** whereas a lot of analyst see further easing as inevitable, given the weak inflation and slow economic recovery. **Kuroda still expects inflation to hit 2% in 2016.**
- **The energy sector in the US had its best week of the year last week.** With the oil prices rising over 9% last week, the S&P energy sector was up 7.8% last week. In Europe, the basic resources sector of the STOXX Europe 600 was up 17%.
- Today **the eco-calendar is empty,** but Federal reserve governors **Lockhart, Williams and Evans speak. US market action will be limited** due to the national Columbus day holiday.

Rates

Comeback stocks & commodities continues

Core bonds narrowly mixed in quiet trading

	US yield	-1d
2	0,641	0,0001
5	1,3995	-0,0016
10	2,0899	-0,0123
30	2,9222	-0,0135

Global core bonds traded narrowly mixed on Friday. US Treasuries eked out slightly gains at the longer end of the curve (-2.2 bps 30yr), while the German curve bear steepened with yields up to 3.3 bps higher (30-yr). The comeback of equity and commodity markets were a driver, but technical elements (end of the US financing operation, long weekend) balanced hawkish comments by Atlanta Fed Lockhart (centrist) and (to a lesser extent) NY Fed Dudley.

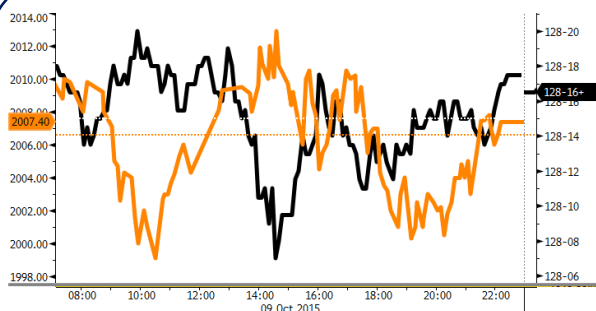
FOMC members Lockhart, Dudley, Fischer still in 2015 camp, but...

Fed remains data-dependent and governors are a little bit less confident on economy

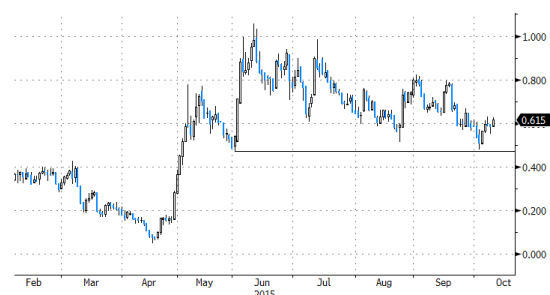
Fed governors keep 2015 timing lift-off, but...

	DE yield	-1d
2	-0,2490	0,0010
5	0,0030	0,0070
10	0,6140	0,0140
30	1,3730	0,0110

Atlanta Fed Lockhart still expects a lift-off this year even though he sees a bit more downside risks: "I believe the economy remains on a satisfactory track, and, speaking for myself, I see a lift-off decision later this year at the October or December FOMC meetings as likely appropriate." Lockhart also believes that inflation data will show an upward trend in due course. However he is a bit less confident in the US economy. Heavyweight NY Fed governor Dudley repeated he is still in the 2015 camp for the lift-off but hedged his view. "Based on my forecast, yes I am, but it's a forecast. And we're going to get a lot of data between now and December. It's not a commitment." He also said he felt slightly less confident than he was 6 weeks ago. During the weekend, Fed Vice chairman Fischer repeated that he favours a 2015 lift-off, as the economy may be strong enough to warrant a rate hike. Global factors and slower job growth play a role and the Fed remains data-dependent. Therefore they effectively keep the options open for the rate decision in December. Markets until now barely react to the 2015 comments of various governors. Probability of a rate hike still stands at only 39% versus 61% no change.



T-Note future (black) & S&P future (orange) (intraday): Volatility in tight ranges. Volumes below average in quiet trading.



German 10 year yield: Only modest increase despite strong rebound equities.

R2	160,62	-1d
R1	157,67	
BUND	155,99	0,0000
S1	153,5	
S2	152,75	

Heavy supply calendar

This week's scheduled EMU bond supply comes from Italy, the Netherlands, Germany, Portugal, Spain and France. Tomorrow, the Dutch debt agency taps the on the run 10-yr DSL (0.25% Jul2025) for €1-2B. The Italian treasury launches a new 3-yr BTP (€3-3.5B 0.3% Oct2018) and taps the on the run 7-yr BTP (€2-2.5B 1.45% Sept2022) and 15-yr BTP (€0.5-1B 1.65% Mar2032). On Wednesday, the German Finanzagentur holds a €3B 5-yr Bobl auction (0.25% Oct2020). The Portuguese debt agency sells the on the run 10-yr OT (2.875% Oct2025) and the off the run OT (4.1% Apr2037) for a combined €1-1.25B. On Thursday, the French debt agency taps the on the run 5-yr OAT (0.25% Nov2020) and two off the runs (4% Apr2018 & 3% Apr2022) for a combined €7-8B. The Spanish treasury taps the on the run 3-yr Bono (0.25% Apr2018), 10-yr Obligacion (2.15% Oct2025) and 15-yr Obligacion (1.95% Jul2030). This week's auctions will be supported by a €5.45B Portuguese redemption.

Today: Quiet start with US markets closed

Overnight, Asian stocks markets trade mixed with China outperforming (up to 4% higher). Japanese markets are closed. Comments by Fed governors pointed in the direction of a 2015 lift-off, but found no hearing on markets. The US Note future trades sideways, suggesting a neutral opening for the Bund.

Today, US markets are closed for Columbus day so volumes will be very low. The eco calendar is completely empty apart from three Fed speakers. Atlanta Fed Lockhart (2015) and Chicago Fed Evans (mid-2016) spoke recently, so we mainly look at Washington-based governor Brainard's comments (after market closure). Washington governors tend to vote in block, so any comments on the lift-off data could be relevant for markets. Overall, we have no strong view for today's trading. Risk sentiment on equity markets will likely set the tone for bond markets.

After the dovish September FOMC meeting, we eyed a return to the contract high for the US Note future (129-10+), but we didn't anticipate a break higher. **That last assumption was under severe pressure after disappointing payrolls, but ultimately both the US Note future and the Bund are back in the ranges. We hold our cautious sell-on-upticks approach for core bonds around current levels for return action to the lower bound of the established ranges.**



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



US Note future: cautious sell-on-upticks approach

Currencies

R2	1,1714	-1d
R1	1,146	
EUR/USD	1,13695	0,0083
S1	1,1087	
S2	1,1017	

On Friday, the dollar lost ground against commodity currencies, but also against the euro.

Currency markets apparently don't give much credence to Fed talk (2015 lift-off)

EUR/USD is drifting higher. EUR/USD 1.1460 resistance is coming on the horizon

Dollar on the defensive

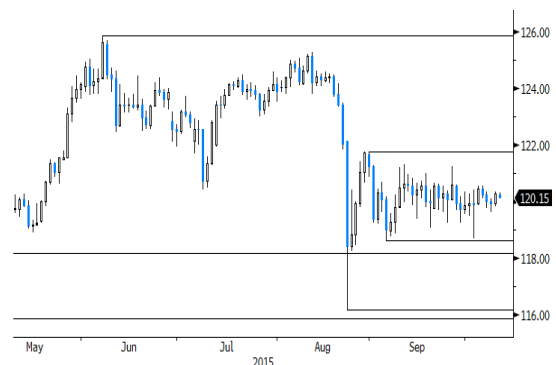
On Friday, the dollar faced some headwinds. The greenback lost ground against the EM and commodity-related currencies as commodities rebounded further. However, the US currency ceded also ground against the euro. The Minutes of the September Fed meeting were somewhat dovish and this probably triggered further repositioning out of the US currency. EUR/USD closed the session at 1.1358 area (up from 1.1276 on Thursday). USD/JPY profited hardly from the risk-on trade. The pair holds in the lower half of the 120 big figure and closed the session at 120.27 (from 119.93).

During the weekend, several Fed governors indicated that they still support the scenario of a Fed lift-off this year (cf fixed income part of this report). However, the interest rate markets and the dollar continue to question this scenario. EUR/USD is holding in the 1.1375 area this morning in Asia. Chinese equities start the week with strong gains, apparently supported by quotes from PBOC deputy governor Yi Gang: "the stock market correction is 'almost over'". Other Asian equities trade narrowly mixed. On Friday, BOJ's Kuroda admitted that inflation in Japan stays below the 2% target due to the decline in oil and commodity prices. However, he didn't see any need for imminent further stimulus. Japanese markets are closed. USD/JPY trades little changed (120.20).

Today, the eco calendar is empty. US markets will be in low volume modus in observance of the 'Columbus Day' holiday. So, trading will be technical in nature. Currency traders will again have to look to equities and to a lesser extent to commodities, to find clues for USD trading. Regarding equities, the picture is a mixed. The strong gains in China are not mirrored in US equity futures. On Friday, the recent positive correlation between the dollar and equities also didn't work. The equity rally was at least partially inspired by (perceived) 'soft' Fed minutes and this context doesn't help the dollar. Commodities including gold stay well bid this morning and this is slightly USD negative. Friday's break above the 1.1319/1.1330 area improved the short-term EUR/USD picture. So, in technical trade, a return to the 1.1460 resistance is possible.



EUR/USD drifting higher in the range



USD/JPY hovers around the 120 pivot

In a long term perspective, EUR/USD and USD/JPY might see more range trading. A Fed rate hike will probably be delayed, but such a scenario also raises the chances for more ECB or BOJ easing. In this context, both EUR/USD and USD/JPY might hold the recent ranges. If the policy divergence between the Fed and the ECB becomes less obvious, EUR/USD may return toward the topside of this range.

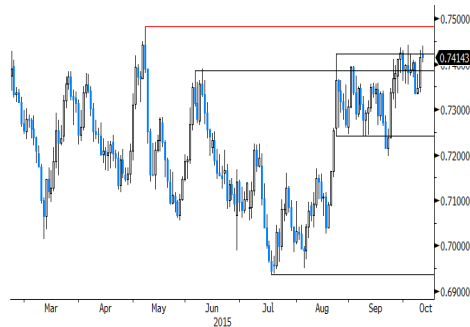
R2	0,7483	-1d
R1	0,7443	
EUR/GBP	0,7415	0,0070
S1	0,7196	
S2	0,715	

EUR/GBP nears 0.7483 key resistance

On Friday, UK eco data were poor. The August construction output unexpectedly dropped by 4.3% M/M to be down -1.3% Y/Y. At the same time, the UK August trade deficit was also reported much wider than expected (after a very poor July figure which was also revised higher). The poor UK eco data probably added to the sterling negative sentiment, but at the time of the publication the charts didn't show that much of a reaction. Basically, cable traded sideways to slightly lower while at the same time EUR/USD recorded strong gains. This combination pushed EUR/GBP back above the 0.74 barrier. EUR/GBP closed the session at 0.7416 (from 0.7348 on Thursday). Cable ended the day little changed at 1.5322 (from 1.5348)

Today, there are no data on the agenda in the UK. Trading will probably be driven by the price action in the dollar cross rates. For now, the dollar is the defensive and this causes some euro strength by default. This is also visible in EUR/GBP. We don't see a real fundamental reason for the euro to go higher on a sustainable basis. The threat of more ECB easing at some point should again come in play. However, short term the euro in general and EUR/GBP in particular face some upside momentum.

From a technical point of view, EUR/GBP still trades in the upper part of the sideways trading range capped by 0.7483. Previous highs at EUR/GBP 0.7423/43 are still under test but no sustained break occurred yet. Trading north of 0.7483 would deteriorate the short-term technical picture of sterling. This is not our preferred scenario. Even so, partial stop-loss protection on EUR/GBP shorts can still be considered.



EUR/GBP holds near the recent highs/range top



Cable rebound running into resistance

Calendar

Monday, 12 October		Consensus	Previous
France			
08:45	Current Account Balance (Aug)	--	-0.4b
Belgium			
	Budget Balance YTD (Sep)	--	-10.182b
China			
	Foreign Direct Investment YoY CNY (Sep)	--	22.0%
	Aggregate Financing CNY (Sep)	1200.0b	1080.0b
Sweden			
08:00	PES Unemployment Rate (Sep)	--	4.3%
Events			
	US - National Holiday: Columbus day		
14:10	US - Fed's Lockhart Speaks on U.S. Economic Outlook in Florida		
16:30	US - Fed's Evans Speaks on Policy and the Economy in Chicago, IL		
22:30	US - Fed's Brainard Gives Outlook and Policy Speech in Washington		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,09	-0,01	US	0,64	0,00	DOW	17084 17084,49
DE	0,61	0,01	DE	-0,25	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,94	0,01	BE	-0,16	0,02	NIKKEI	18439 18438,67
UK	1,86	0,04	UK	0,57	0,00	DAX	10096,6 10096,60
JP	0,33	0,00	JP	0,02	0,00	DJ euro-50	3250 3250,31

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,142 -0,004
3y	0,130	1,013	1,157	Euribor-1	-0,11	0,00	Libor-1 USD	0,51 0,51
5y	0,365	1,430	1,475	Euribor-3	-0,05	0,00	Libor-3 USD	0,57 0,57
10y	0,995	2,049	1,908	Euribor-6	0,03	0,00	Libor-6 USD	0,75 0,75

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,13695	0,0083	EUR/JPY	136,58	1,13		201,303	1163,7	52,92
USD/JPY	120,145	0,13	EUR/GBP	0,7415	0,0070	-1d	1,71	16,75	-1,00
GBP/USD	1,5327	-0,0041	EUR/CHF	1,0932	0,0029				
AUD/USD	0,7330	0,0045	EUR/SEK	9,3139	0,02				
USD/CAD	1,2918	-0,0045	EUR/NOK	9,1857	0,01				

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.

