



Sunrise

Tuesday, 02 February 2016

Rates: Modest profit taking

Core bonds were hit by some modest profit taking, amid overbought conditions. Initially, equities corrected too, but dovish comments of Fed vice chair Fischer allowed equities to erase losses. It came at the expense of a further modest dip of US Treasuries. Today, thin calendar points to calm trading with maybe some further profit taking. .

Currencies: Post BOJ USD rally running into resistance

Yesterday, the positive effect of Friday's BOJ easing petered out. Oil declined sharply. Equities and the dollar ceded slightly ground, even as US data were close to expectations. Today, there are few eco data on the agenda. It looks that yesterday's setback of the dollar might continue. Sterling might fall prey to profit taking after yesterday's rally.

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	↓

- **A late session rebound pushed US equities to a neutral close yesterday**, ignoring a lower oil price and slightly weaker manufacturing ISM. This morning, most **Asian shares trade lower, but Chinese stocks outperform**, gaining more than 3%.
- **Texas Senator Ted Cruz outmuscled Donald Trump to win the first caucuses, in Iowa yesterday**. In the Democratic race, Clinton failed to get a decisive result, as she was hanging on to a narrow 49.8% to 49.6% lead over Sanders.
- **The Reserve Bank of Australia held its interest rates steady this morning, but left the door open for more stimulus** by saying that a background of subdued inflation meant there was scope for a reduction if needed to support the economy. The Aussie dollar weakened slightly this morning.
- **Yesterday, oil prices reversed part of last week's gains as Gulf states downplayed expectations for an emergency OPEC meeting**. The Brent oil price remains under pressure this morning, trading currently around \$33.50/barrel. The WTI trades significantly lower, around \$31/barrel.
- **Alphabet, the holding company for Google, easily beat market expectations yesterday**, helped by strong mobile advertising sales. In after-market trading, Alphabet's shares rose more than 6%, a rally that propelled it past Apple as the world's most valuable company.
- Today, **the eco calendar** contains the euro zone unemployment rate and US vehicle sales. ECB's Coeure and Fed's George are scheduled to speak.

Rates

Modest profit taking core bonds

Oil slides lower again

European equities slightly lower, US ones mixed, but little changed

	US yield	-1d
2	0,7896	0,0159
5	1,3506	0,0259
10	1,9329	0,0155
30	2,7468	0,0022

Fed Fischer says turmoil may affect US economy, but too soon to know.

It confirmed move in March is unlikely

	DE yield	-1d
2	-0,4650	0,0150
5	-0,2911	0,0143
10	0,3450	0,0110
30	1,0816	0,0295

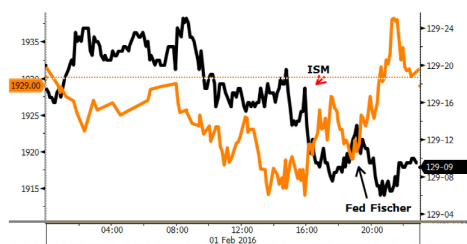
Modest profit taking on overbought conditions

Global core bonds started the trading week on a slow footing. They fell prey to modest profit taking, partly shrugging off overbought conditions, after an initial (failed) attempt to rally higher. Declining equity markets and a lower oil price were no issues in European trading. During US dealings, the downward bias of Bunds evolved into more sideways trading, but the US Treasuries slid somewhat further, also due to the equity markets' positive reaction on Fed Fischer's comments. The **US ISM business index** stabilized at 48.2, unchanged from December and a fourth sub-50 reading. **In a daily perspective**, the German yield curve shifts 1.9 to 2.8 bps higher, leaving the shape little changed. Changes on the US yield curve varied between +1.8 bps (30-yr) to +4 bps (7-yr), the belly underperforming the wings slightly. **On intra-EMU bond markets**, 10-yr yield spreads widened around 3 bps for the peripherals with Greece outperforming (-32 bps).

Vice Fed chairman Fischer was dovish when **he said that it was too difficult to gauge the impact on the US economy from recent turmoil in financial markets and uncertainty over China. If these developments lead to a persistent tightening of financial conditions, it could affect the US economy.** He hedged his comments by saying that *"we have seen similar periods of instability in recent years that have left little permanent imprint on the economy."* He said he can't answer questions about what the Fed will do in March: *"We simply don't know"*. On the remainder he was fairly optimistic on the economy and on inflation moving to 2%. However, we still consider his words as confirming market expectations that Fed will stay put in March.

Thin eco calendar; ECB Coeuré and Fed George speak

In November, the **euro zone unemployment rate** came out significantly better than expected, falling from 10.6% to 10.5%, while an outcome of 10.7% was expected. In the meantime however, EMU economic data were mixed, but labour market data remained quite strong. For December, the consensus is looking for a stabilization in the unemployment rate at 10.5%, but we believe that **the risks remain for a better (lower) outcome.** In the **US, vehicle sales** are expected to have picked up again at the start of the year. Domestic vehicle sales are forecast to pick up from 13.46 million to 13.70 million.



US Note future (black) and S&P future (orange): US Treasuries in correction mode. Equities initially too, but by the end rally on.



Oil rally over?

R2	165	-1d
R1	163,78	
BUND	163,07	-0,3300
S1	160,38	
S2	156,4	

Bund remains in overbought conditions

Overnight, most Asian equity indices trade up to 1% lower with China outperforming (+2-3%). Both the Australian and Indian central bank kept policy unchanged. The US Note future trades with a small upward bias, suggesting a somewhat stronger opening for the Bund as well. ECB Draghi warned for heightened downside risks to the economy, mainly stemming from emerging markets, and repeated that the ECB will evaluate its policy in March.

Today's eco calendar is dull and unlikely to stir markets. Central banks include ECB Coeure (who already spoke yesterday) & Fed George (hawkish profile) and are wildcards. The absence of strong drivers suggests a neutral trading session ahead of non-manufacturing ISM, ADP employment and payrolls. The Bund remains in overbought conditions (US Note future nearly) which suggests some more profit taking. We are doubtful whether such move has far to go given that **overall sentiment remains positive on bond markets**. The dovish turn of global central banks (ECB, BoE, BoJ and Fed) pulled yields lower. **Technically, the German 10-yr yield fell below final support (0.42%). That opens the way for a complete retracement towards the all-time low at 0.05%. The US 10-yr yield dropped below the 2% mark and tested support around 1.9%. A break didn't occur so far.**



German Bund: dovish central banks give Bund another boost



US Note future: testing contract high

Currencies

Post-BOJ USD rebound ran into resistance yesterday

R2	1,106	-1d
R1	1,0985	
EUR/USD	1,09005	0,0051
S1	1,0778	
S2	1,065	

Post-BOJ USD rally runs into resistance

The post-BOJ global risk-on rally petered out yesterday. This prevented further USD gains. USD/JPY initially stabilised in the lower half of the 121 big figure, but lost slightly ground later to end the day at 120.99 (from 121.14 on Friday). The US eco data (spending and income, Markit manufacturing PMI and manufacturing ISM) were soft, but mostly close to expectations and had hardly any lasting impact on USD trading. Fed Fisher acknowledged the potential impact of the recent rise in volatility, but refused to given any hints on what the Fed will do in March. EUR/USD regained some ground after Friday's USD gains. Even so, the pair holds within the boundaries of an extremely tight range and closed the session at 1.0888 (1.0831 on Friday evening).

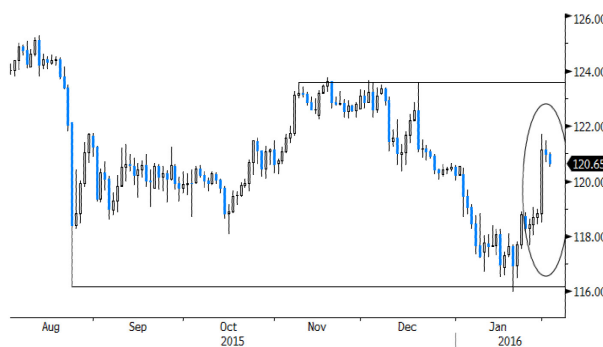
This morning, most Asian equities show modest losses in line with Europe and the US yesterday. Oil extends yesterday's decline with Brent trading below \$34/barrel. Chinese equities outperform and show gains of about 2%-3%. The PBOC tries to maintain market calm going into the Lunar New Year holidays. The Bank fixed the yuan at the strongest level against the dollar since in early January. The Reserve Bank of Australia as expected kept its policy rate unchanged at 2.0%. The exchange rate of the Aussie dollar has continued its adjustment to the evolving economic outlook. For now, the RBA stays in wait-and-see modus, but maintains its easing bias. "Continued low inflation may provide scope for easier policy, should that be appropriate to lend support to demand". The Aussie dollar lost a few ticks after the RBA's statement and trades currently just below the AUD/USD 0.71 big figure. The halt in the risk-on rally and the decline in the oil price also weigh slightly on the US dollar. USD/JPY changes hands in the 120.70 area. EUR/USD regained the 1.09 mark.

Most Asian markets shift to modest risk-off modus.

The dollar is losing slightly ground



EUR/USD gains a few ticks within a very tight sideways range



USD/JPY: post-BOJ rally runs into resistance

Few important eco data on the agenda to guide USD trading

Day-to-day momentum turns slightly USD negative

Today, the eco calendar is extremely thin. The EMU PPI and unemployment rate are interesting, but a bit outdated and no market movers. In the US there are only second tier eco data on the agenda. Yesterday morning, it looked that the positive fall-out from the BOJ easing on Friday could be enough for the dollar to preserve its recent gains. However, the positive momentum, both for equities and oil, evaporated during the day and also broke the short-term USD-positive momentum. What can't go up, must come down.

So, in a day-today perspective, the dollar is now again drifting cautiously lower against the euro and the yen. However, especially EUR/USD still evolves within an extremely tight sideways range.

From a technical point of view, EUR/USD several times tried to break below the 1.08 barrier, but a sustained down-move didn't occur, leaving the pair in a very tight sideways consolidation pattern. Next support is at 1.0711/1.0650 (correction low, 76% retracement off 1.0524/1.1060) and at 1.0524. On the topside, 1.0985/1.1004 (reaction top) is a first reference. This level was left intact even as sentiment was outright risk-off before the ECB meeting. Next resistance comes in at 1.1060/1.1124 (15 Dec top: 62% retracement). We expect this resistance to be difficult to break. We look to sell EUR/USD on upticks for return action lower in the range. **The picture for USD/JPY improved as the pair rebounded above 120 after Friday's BOJ policy decision. Even so, we are reluctant to position for further sustained USD/JPY gains as long as global uncertainty persists.**

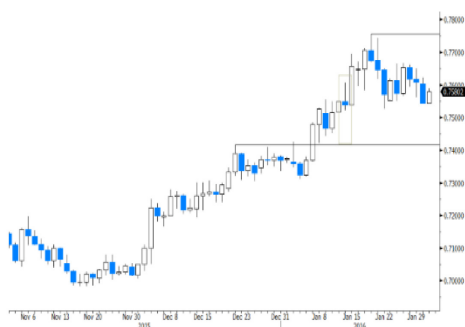
R2	0,7755	-1d
R1	0,7666	
EUR/GBP	0,7572	-0,0036
S1	0,7525	
S2	0,7313	

Sterling shows remarkable strength

Yesterday, sterling initially hovered up and down against the euro and the dollar, but finally closed the day with strong gains The UK currency touched a first intraday top mid-morning as the **UK manufacturing PMI came out stronger than expected, while** the December money supply and lending data were uneventful. In technical, order driven trade, the post- PMI gains were almost immediately reversed. Conflicting headlines on the EU/UK negotiations maybe were a source of intraday volatility. **At the end of the day, sterling made a remarkable comeback, even as oil declined, which was often a negative for sterling trading of late.** EUR/GBP closed the session at 0.7544 from 0.7608 on Friday evening. Cable even rebounded north of 1.44 level, but part of the rise was due to USD weakness rather than GBP strength.

Today, the UK construction PMI is expect marginally weaker at 57.5 from 57.8, but it won't affect trading much. Oil, global sentiment on risk and the Brexit debate will remain the key drivers for GBP trading. These issues suggest a weaker sterling short-term. Yesterday's GBP rally in the absence of a clear trigger looks overdone. Investors will also look forward to the BoE policy decision and the new inflation report on Thursday.

In a longer term perspective, uncertainty on Brexit and global negative risk sentiment remain important drivers for sterling weakness. As long as these issues aren't solved, a sustained sterling rebound is unlikely. **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 0.7875.** A return below 0.74 would be a first indication that sterling enters calmer waters.



EUR/GBP: holding in the 0.76 area



GBP/USD: bottoming out process to continue?

Calendar

Tuesday, 2 February		Consensus	Previous
US			
	Wards Domestic Vehicle Sales (Jan)	13.70m	13.46m
	Wards Total Vehicle Sales (Jan)	17.30m	17.22m
15:45	ISM New York (Jan)	--	62.0
Japan			
00:50	Monetary Base YoY (Jan)	A: 28.9%	29.5%
00:50	Monetary Base End of period (Jan)	A: ¥358.8t	¥356.1t
Australia			
04:30	RBA Cash Rate Target	A: 2.00%	2.00%
UK			
10:30	Markit/CIPS UK Construction PMI (Jan)	57.5	57.8
EMU			
11:00	PPI MoM/YoY (Dec)	-0.6%/-2.8%	-0.2%/3.2%
11:00	Unemployment Rate (Dec)	10.5%	10.5%
Germany			
09:55	Unemployment Change ('000's) (Jan)	-8k	-14k
09:55	Unemployment Claims Rate SA (Jan)	6.3%	6.3%
Italy			
10:00	Unemployment Rate (Dec P)	11.2%	11.3%
Belgium			
11:00	Unemployment Rate (Dec)	--	7.8%
Spain			
09:00	Unemployment MoM Net ('000s) (Jan)	71.0	-55.8
Events			
09:15	ECB Board Member Coeure Speaks in Frankfurt		
19:00	Fed's George Speaks on U.S. Economy in Kansas City		
	Quarterly earnings releases of Dow Chemical (Bef-mkt), Pfizer Inc (Bef-mkt), Exxon Mobil (14:00), UBS Group (06:45), BP Plc (08:00)		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,93	0,02	US	0,79	0,02	DOW	16449,18
DE	0,35	0,01	DE	-0,47	0,02	NASDAQ	for Exch - NQI
BE	0,64	0,02	BE	-0,38	0,01	NIKKEI	17751,17750,68
UK	1,62	0,05	UK	0,38	0,05	DAX	9757,88,9757,88
JP	0,09	0,01	JP	-0,14	0,00	DJ euro-50	3021,3021,01

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,237
3y	-0,121	1,006	0,955	Euribor-1	-0,23	0,00	Libor-1 USD	0,51
5y	0,077	1,289	1,201	Euribor-3	-0,16	0,00	Libor-3 USD	0,59
10y	0,675	1,787	1,639	Euribor-6	-0,09	-0,01	Libor-6 USD	0,73

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,09005	0,0051	EUR/JPY	131,5	-0,08		166,7525	1125,13	33,69
USD/JPY	120,65	-0,62	EUR/GBP	0,7572	-0,0036	-1d	1,53	4,54	-1,54
GBP/USD	1,4391	0,0134	EUR/CHF	1,111	0,0024				
AUD/USD	0,7071	-0,0001	EUR/SEK	9,3005	0,00				
USD/CAD	1,4016	0,0003	EUR/NOK	9,4870	0,07				

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