



Sunrise

Monday, 07 December 2015

Rates: Risk sentiment and technical factors main trading items

Today's eco calendar is uninspiring. Risk sentiment on equity markets and technical factors will drive trading. This weekend's 1st round regional election victory for Marine Le Pen's Front National, could trigger some underperformance of France on EMU-bond markets.

Currencies: Dollar still in recovery room after Thursday's K.O.

The dollar needs time after Thursday's huge sell-off to get its composure back. Today's calendar is empty, making a substantial comeback unlikely. Risk sentiment seems slightly positive, but following Friday's strong gains on Wall Street, also here some pause would be natural. So, we bet on technically inspired sideways trading.

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	→

- **On Friday, US equities gained up to 2%** following another strong payrolls report even if that cements a December rate hike by the Fed. **Overnight, Asian stock markets couldn't really build on that momentum** and trade mixed to slightly higher.
- **ECB president Draghi** said that there cannot be any limit to how far the ECB is willing to deploy policy instruments, within their mandate, and to achieve that mandate. He added that there was no doubt that they would use these instruments if needed to achieve the price stability mandate
- **France's far-right National Front** led in six of the 13 regions that voted in the first round of elections to select legislatures, according to exit polls that forecast a setback for President Hollande three weeks after the Paris terror attacks.
- **President Obama** used a rare Oval Office address to lay out his administration's approach for dealing with the rising threat of domestic terrorism in the wake of last week's San Bernardino massacre, calling for new gun control measures and tightened visa application processes, but suggesting no new military initiatives.
- **Central banks should press ahead with plans to tighten monetary policy** and not let market volatility sway their judgment, **the BIS** has said ahead of the expected first rate rise by the US Federal Reserve in nine years.
- **Rating agency S&P kept the Irish rating unchanged at A+ (stable outlook)**. Risks of upside revision if government debt declines faster than S&P anticipates and continued strong economic growth on the one hand and post-election fiscal policy loosening on the other hand are balanced.
- **Today, the eco-calendar is empty** apart from a speech by Fed president Bullard.

Rates

Solid payrolls countered by drop in oil price

Slight additional losses Bunds

US Treasury curve bear flattens despite strong payrolls

Peripheral yield spread widening modest

	US yield	-1d
2	0,9588	0,0000
5	1,7236	0,0017
10	2,2906	-0,0035
30	3,0191	-0,0184

Fed Bullard, last FOMC governor to speak before Dec.16 meeting

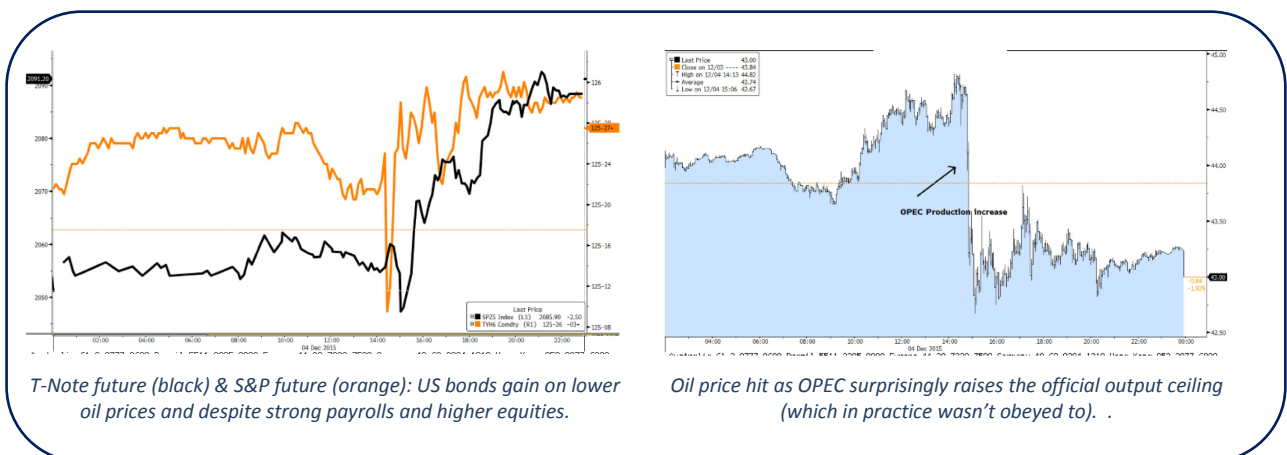
	DE yield	-1d
2	-0,2990	0,0090
5	0,0136	0,0367
10	0,6927	0,0275
30	1,5230	0,0480

On Friday, global core bonds parted ways in a minor way. The Bund lost still some modest additional ground, as investors were still shaking from Thursday's ECB cold shower. US Treasuries on the contrary gained some ground, as an unexpected oil production increase by OPEC outweighed another solid payrolls report. US Treasuries also didn't suffer from the strong rise in equities. After Thursday's huge sell-off, the downside of core bonds was apparently also a bit exhausted. In a daily perspective, US yield curve bull flattened with yields down 1.2 bps (2-yr) to 4.5 bps (10-30-yr). The German yield curve shifted higher, but yield changes were limited between 0.6 and 1.2 bps with the 5-yr underperforming (+2.7 bps). **On intra-EMU bond markets, 10-yr yield spreads versus Germany narrow up to 2 bps with Greece underperforming (+19 bps).**

Unattractive calendar at opening session of the week

Today, the eco calendar is light with the US labour market conditions index and consumer credit, which are no market movers. Also the EMU Sentix investor confidence won't affect markets. After European closure, **Fed Bullard**, a hawk, speaks (again) and he might be the last governor to speak before the Dec 16 FOMC meeting. His views are well-documented. He is in favour of a December lift-off, an opinion that is by now shared by most Fed governors and market watchers. **The debate shifts to the pace of further Fed tightening.** In this respect, Bullard's views regarding the payrolls (wage growth) and the development of inflation might be interesting, but once more, his comments won't change views on the December outcome and the new forward guidance.

The **France far right Front National was the big winner in the first round of the regional elections.** Nationwide it took more than 30% of the popular vote. FN leads in 6 out of 13 regions and might conquer four of them in the second round. It is a major victory for the Front National that is now of national importance. It shows that political fracture in more and more countries are occurring against the background of the massive migration and dissatisfaction about the way the economic crisis simmers further. **It weakens the European project that shows fragilities that weaken the euro. Political risks are on the rise. We'll see whether it affects the euro and French sovereign debt.**



R2	161,71	-1d
R1	160,66	
BUND	157,13	1,2000
S1	156,4	
S2	154,54	

EMU supply very thin; US refinancing operation

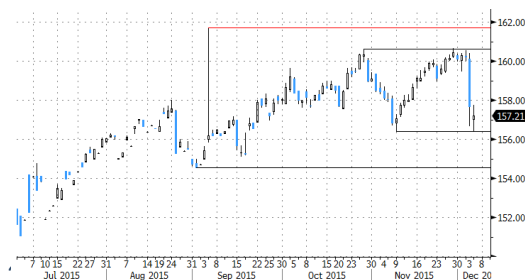
This week's EMU bond supply is thin with only a German auction. Friday's Italian bond auction is cancelled. On Wednesday, the German Finanzagentur taps the on the run 2-yr Schatz (€3B 0% Dec2017). The auction will be supported by a €14B Schatz redemption. **In the US, the Treasury holds its mid-month refinancing operation.** They start tomorrow with a \$24B 3-yr Note auction, followed by a \$21B 10-yr Note auction on Wednesday and a \$13B 30-yr Bond auction on Thursday.

Today: Risk sentiment and technical trading

Overnight, most Asian stock markets trade with small gains which are nothing compared to Friday's stellar gains on WS (+2%). ECB President Draghi sounded combative in a speech in the US. One day after the relatively modest additional easing measures, **he said that there was no limit to what his policymakers could do to hit their inflation targets.** In France, **Marine Le Pen's FN won the first round of the regional elections**, putting it in the lead to win control of several regions in Sunday's second round vote. That could trigger some French underperformance today.

Today, the eco calendar is completely empty apart from a speech by Fed President Bullard. That leaves technical factors and risk sentiment on equity markets as main trading drivers. Following Friday's strong payrolls, the market implied probability of a December lift off, our base scenario, increased further to 78%. **We hold our sell-on-upticks approach for return action to the 125-01 recent low in the US Note future (2.37% resistance in US 10-yr yield).**

In Europe, the December ECB meeting took the angle out of the threat that the ECB will ease policy forever. In retrospect, it might turn out to be the end of the global rat race to have the easiest monetary policy. That puts a huge bottom below European rate markets (ceiling for the Bund). After last week's Bund sell-off, we believe that in first instance a new equilibrium needs to be found around first support (March 2016 contract: 156.40; currently 157.13).



German Bund: Draghi fails to live up to market expectations. Heading to lower bound sideways range



US Note future (March contract!!): heading to recent low going into the Dec 16 FOMC meeting?

Currencies

R2	1,1087	-1d
R1	1,0981	
EUR/USD	1,0867	-0,0010
S1	1,0524	
S2	1,0458	

Dollar doesn't fully profit from strong US payrolls report

On Friday, currency markets looked for a new equilibrium after yesterday's post-ECB repositioning, which pushed the euro sharply up in a short squeeze and hit the dollar. The dollar tried to regain some ground, but the move had no strong legs. The US payrolls were slightly better than expected and oil prices were under pressure on the OPEC's decision to raise the output ceiling. However, it didn't immediately help the dollar much. Following yesterday KO, investors were not yet in the mood to reinstall new dollar long positions. However, later on in the US session, the dollar finally made some headway, but without much conviction. EUR/USD closed at 1.0881, down from 1.0940 at Thursday's closure. USD/JPY closed at 123.11 from 122.60 on Thursday and remains in its month long tight 122.20 to 123.80 range.

Dollar bulls still groggy from Thursday's uppercut, not ready yet to reinstall longs

USD/JPY remains range-bound

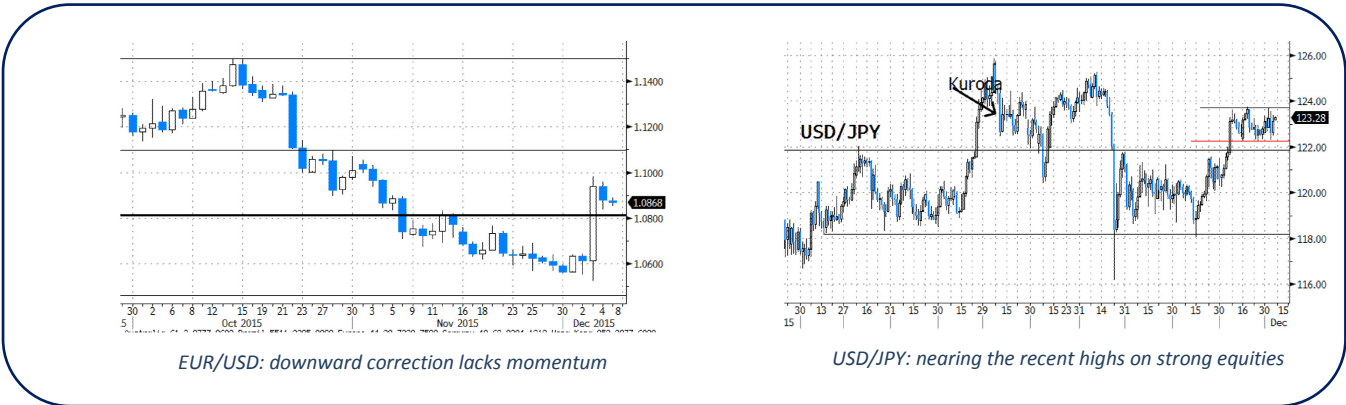
Unattractive calendar might lead to range-trading. Dollar still needs to digest the post-ECB uppercut.

Today, there are no important eco data

Dollar correction looking for a bottom?

This morning, Asian equities trade a bit mixed but winners dominate losers. The dollar gains cautiously ground against the euro and the yen after a weaker opening. EUR/USD trades in the 1.0865 area. USD/JPY changes hands in the 123.20 area. Commodities show a mixed picture with some industrial commodities recording slight gains. Brent oil dropped below \$43/barrel. The Aussie dollar is off Friday's top, which was a test of the resistance, but with minor intraday losses (0.7330).

Today, there are few eco data with market moving potential on the agenda in the US as well as in Europe. Fed's Bullard will be one of the last Fed members to give his view on Fed policy before the start of the black-out period. However, his view (starting the lift-off) is well-known in the market. So trading will be driven by technical considerations. Sentiment on risk is marginally constructive in Asia this morning. However, over the previous days, this was no guarantee for dollar strength. We still look out whether the post-ECB correction will have to go much further. Interest rate differentials at 2-yr between Germany and the US have declined from the 140 bps area to around 125 bps currently. This is already quite a substantial adjustment.



EUR/USD: downward correction lacks momentum

USD/JPY: nearing the recent highs on strong equities

With the ECB deposit rate at -0.3%, the euro faces still an impressive interest rate disadvantage. The dollar will preserve a substantial interest rate support, as a lift-off in December is baked in the case. On the other hand, US interest rates fell after Friday's US payrolls (due to lower oil prices).

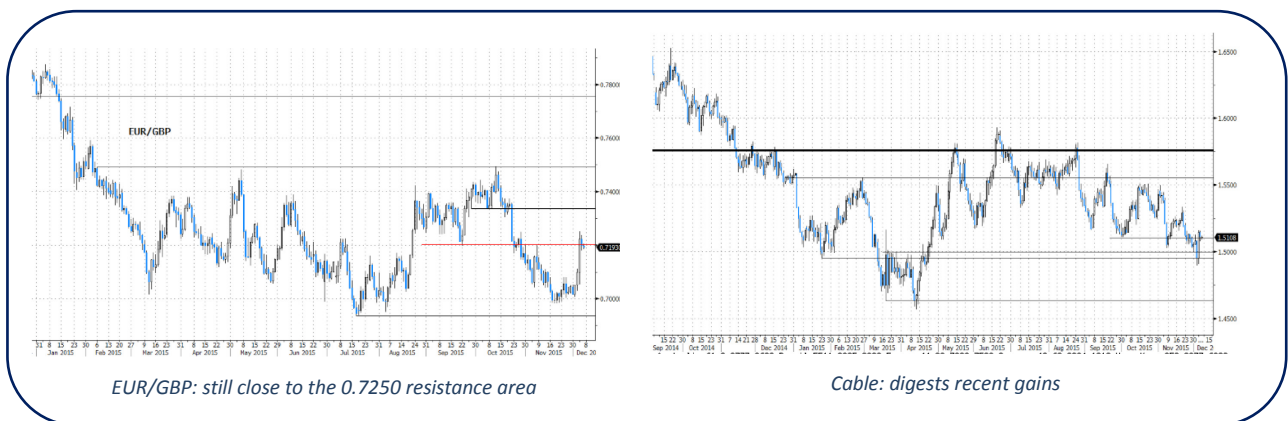
This suggests that it will take some time (and some good US eco data) for the dollar to regain further ground. Later this week, we look out to the US retail sales and the US PPI. Those data might fuel the debate on the potential pace of Fed tightening after lift-off. From a technical point of view, first resistance in the 1.0800/30 has been easily recouped. The 38% retracement from 1.1714 to 1.0524 stands at 1.0979 and was tested after the ECB decision. A previous range bottom/break down area comes in at 1.1087. This might become a first tough resistance going into the Fed policy decision. **ST investors can look to (re)sell EUR/USD in case of upticks toward this area. The day-to-day momentum of USD/JPY looks constructive. However, the pair remains blocked in a tight sideways range. For now, a break higher and a retest of the year highs (125.28/86 area) looks not that evident.**

R2	0,7298	-1d
R1	0,7251	
EUR/GBP	0,7192	-0,0008
S1	0,6983	
S2	0,6936	

EUR/GBP still close to the correction top.

On Friday, there were no important eco data in the UK or EMU. The surprise ECB decision (on Thursday) caused on Friday a rebound of cable and a rise in EUR/GBP as cable underperformed EUR/USD. Cable basically hovered sideways in a range between 1.5075 and the 1.5160 area and closed in the middle at 1.5112 versus 1.5144 previously. EUR/GBP to some extent followed the intraday price pattern of EUR/USD. **An early attempt to go south was rejected. After the payrolls/OPEC decision, the pair retested the 0.7230 intraday highs, but following the post ECB gains, the pair looked exhausted.** Finally, stronger US equities helped both the dollar and sterling slightly higher versus the euro. However, given the huge post ECB losses, these gains were insignificant. The EUR/USD pair closed at 0.7198, down from 0.7223 on Thursday. So, sterling sentiment remains fragile.

Today, the UK and EMU calendars are devoid of key eco data. So, sterling trading will be technically oriented and driven by moves in main crosses. As is the case for EUR/USD, the jury is still out whether the repositioning has run its course. A less accommodative ECB over time might make it easier for the BoE to raise rates, if the data would allow them to do so. It is still early days, but in that scenario, one should expect a real long-term trend reversal in EUR/GBP. **At this stage it is too early to bet on such a scenario. In a day-to-day perspective, we expect technically inspired trading near the 0.7250 resistance area.**



EUR/GBP: still close to the 0.7250 resistance area

Cable: digests recent gains

Calendar

Monday, 7 December		Consensus	Previous
US			
16:00	Labor Market Conditions Index Change (Nov)	1.6	1.6
21:00	Consumer Credit (Oct)	\$19.000b	\$28.918b
Japan			
00:50	Official Reserve Assets (Nov)	A: \$1233.0B	\$1244.2b
06:00	Leading Index CI (Oct P)	A: 102.9	101.6
06:00	Coincident Index (Oct P)	A: 114.3	112.3
China			
	Foreign Reserves (Nov)	A: \$3492.5b	\$3525.5b
EMU			
10:30	Sentix Investor Confidence (Dec)	17.0	15.1
Germany			
08:00	Industrial Production SA MoM/WDA YoY (Oct)	A: 0.2%/0.0%	-1.1%/0.4%
Norway			
10:00	Industrial Production MoM/WDA YoY (Oct)	--/--	1.6%/2.0%
10:00	Ind Prod Manufacturing MoM/WDA YoY (Oct)	-0.2%/--	0.9%/-3.5%
Sweden			
09:30	Budget Balance (Nov)	--	1.1b
Switzerland			
09:00	Foreign Currency Reserves (Nov)	554.0b	550.9b
Events			
18:30	US - Fed's Bullard Speaks on Monetary Policy in Muncie, Indiana		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,29	0,00	US	0,96	0,00	DOW	17848 17847,63
DE	0,69	0,03	DE	-0,30	0,01	NASDAQ	for Exch - NQI #VALUE!
BE	1,00	0,04	BE	-0,22	0,01	NIKKEI	19698 19698,15
UK	1,93	0,05	UK	0,63	0,00	DAX	10752,1 10752,10
JP	0,33	-0,01	JP	-0,01	0,00	DJ euro-50	3331 3330,75

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,138 -0,002
3y	0,048	1,274	1,191	Euribor-1	-0,17	-0,01	Libor-1 USD	0,50 0,50
5y	0,304	1,640	1,492	Euribor-3	-0,12	-0,01	Libor-3 USD	0,57 0,57
10y	0,985	2,160	1,941	Euribor-6	-0,05	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,0867	-0,0010	EUR/JPY	133,93	0,41		183,3043	1085,2	42,78
USD/JPY	123,28	0,50	EUR/GBP	0,7192	-0,0008	-1d	0,00	26,14	-0,95
GBP/USD	1,5104	0,0001	EUR/CHF	1,0847	0,0002				
AUD/USD	0,7333	0,0003	EUR/SEK	9,2291	-0,02				
USD/CAD	1,3395	0,0043	EUR/NOK	9,2842	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.

