



Sunrise

Friday, 15 January 2016

Rates: More gains for US Treasuries?

US eco data risk to be a mixed bag. Such outcome might further boost positive sentiment on the US Treasury market ahead of the long weekend (US markets closed on Monday). Especially since more and more Fed governors indicate that doubts about inflation expectations would tend to push off further rate increases

Currencies: dollar holding tight ranges a global uncertainty persists

Yesterday, the dollar recorded incremental gains as global sentiment improved in US trading. However this morning's price action suggests that global volatility isn't over yet. Today, the eco calendar in the US is well-filled with the retail sales taking center stage. We see an asymmetrical risk for the dollar, with downside risks prevailing in case of weaker data.

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	↗

- **US Equities** rebounded yesterday with major indices gaining up to 2% led by a rebound in energy shares. This morning, **Asian shares fail to copy Wall Street gains**. Chinese stocks lose up to 4% due to continued growth concerns and a new sell-off in the oil price.
- **China's bank lending slowed in December, but companies raised more credit via bonds and shadow banking**, data showed this morning. A central bank official said the data showed that liquidity was generally ample and economic activity was increasing.
- **Tumbling inflation expectations in financial markets are becoming worrisome**, Fed's **Bullard** warned yesterday, adding that they are a key factor and he would put increasing weight on it if they continue to decline.
- After a limited rebound yesterday, **crude oil prices are tumbling lower** again this morning. Both the Brent and WTI crude oil price are hovering around \$30.25/barrel this morning.
- Despite slowing revenue growth, **Intel's fourth quarter profit beat market expectations**, but the company said the year is off to a soft start amid tepid economic growth especially in China. In after-market trading, Intel shares dropped lower.
- Today, the **US eco calendar is well-filled** with the retail sales, Empire State index, industrial production data and University of Michigan consumer confidence. **EU Finance Ministers** meet in Brussels, Fed's Dudley, Williams and Kaplan are scheduled to speak and Wells Fargo, Citigroup and Blackrock will announce Q4 earnings.

Rates

Core bonds withstand US equity rebound

	US yield	-1d
2	0,8824	-0,0328
5	1,4968	-0,0315
10	2,0749	-0,0177
30	2,8668	-0,0092

	DE yield	-1d
2	-0,3810	-0,0020
5	-0,1304	-0,0013
10	0,5087	-0,0002
30	1,3590	0,0551

Global core bonds traded sideways in a narrow range during the European and US session, untouched by initial hemorrhage on European equity markets and, later on taking stronger US equities (+1.7% up at closure) into stride. The resistance of core bonds when riskier assets have a, albeit seldom, rally is striking. The equity rebound might have been initiated by slightly better oil prices, but looked more a technically-induced bounce in an oversold market. In a daily perspective, the US curve still shifted up to 1.8 bps lower (5-yr). The 30-yr bond underperformed slightly (-0.5 bps), as it was a bit under pressure ahead of the 30-yr auction. **German bonds underperformed US ones. The German yield curve bear steepened with yield up to the 10-yr tenor barely changed (up to 0.6 bps higher) while the 30-yr yield increased by 2.9 bps.** The news flow (plain vanilla EMU bond supply, unchanged BoE decision & Minutes and higher US initial claims, mixed US 30-yr Bond auction) had no impact on trading..

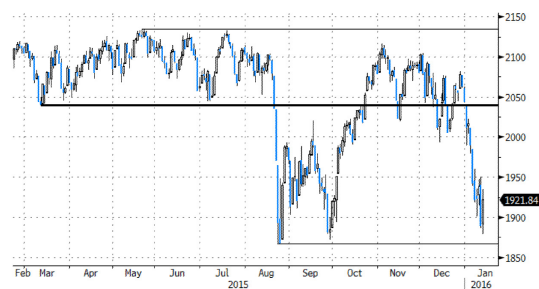
ECB Minutes suggests door for further easing remains open.

Hawk Fed Bullard shows some dovish repositioning on lower inflation expectations

Minutes of the ECB's December meeting showed quite some dispersion on which policy actions to take to tackle low inflation. (see yesterday's Sunset for full coverage). **We conclude that the door for additional easing remains open and current developments on the inflation front suggest perhaps that chances are growing bigger and bigger.** Fed Bullard, a hawk, showed some dovish repositioning during his speech due to inflation rate expectations. **"Inflation expectations are a key factor and if they continue to decline, I would put increasing weight on that. Doubts about inflation expectations would tend to push off rate increases"**, he said. Fed Evans showed similar concerns earlier this week and stressed that besides market expectations now also survey-based consumer inflation expectations show tendency to decline. **Today's Michigan survey will be looked at closely (inflation expectations).**



T-Note future (black) and S&P future (orange): T-Note future keeps strong posture, also when equities rebound



S&P: Rebound when approaching key support level. No particular trigger. Dead cat bounce?

Well-filled interesting US eco calendar

US retail sales will again be depressed by lower gasoline station sales, while vehicle sales data suggest that also car sales dropped in December (although it is not always a good pointer). As a result, headline retail sales are forecast to have dropped by 0.1% M/M following a 0.2% M/M increase in November. The control group is however expected to come out stronger with an increase by 0.3% M/M expected, following a 0.6% M/M gain in November. Especially non-store retail

Headline retail sales to be weak, but core sales stronger

Ongoing low PPI readings.

Upside risks NY manufacturing survey, but downside risks production and Michigan consumer confidence

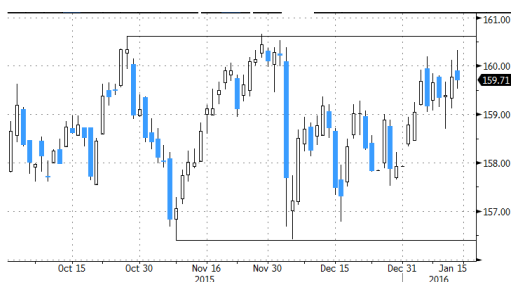
sales were apparently strong in December. For the control group, we believe **that the risks are for a slightly stronger outcome**, supported by a strong Christmas shopping season. **PPI inflation** will again be depressed by lower energy prices. The headline figure is expected to show a 0.2% M/M drop while core PPI is expected to have increased by 0.1% M/M in December. We side with consensus. The **Empire State index** is expected to stay in negative territory at the start of the year, but a very limited, increase is expected, from -4.59 to -4. Weakness in new orders slowed somewhat over the previous months and shipments even increased in December. Therefore, we believe that **the risks are for an upward surprise. Production** data are expected to show a 4th monthly decline in December, although the pace is expected to have slowed somewhat. The consensus is looking for a decline by 0.2% M/M, while manufacturing production is estimated to have been flat. We however continue to see **downside risks**. Finally, **University of Michigan consumer confidence** for January is expected to show a marginal improvement, from 92.6 to 92.9. Although remaining at strong levels, consumer sentiment has failed to improve further in recent months, despite lower oil prices. For January, we believe that the risks are for a **weaker outcome** as higher rates, financial market turmoil and geopolitical uncertainty might have weighed on sentiment.

Today: More gains for US Treasuries?

R2	161,71	-1d
R1	160,66	
BUND	159,75	-0,2600
S1	156,4	
S2	154,54	

Overnight, most Asian equities trade lower with China underperforming (-4%). The Asian equity performance is disappointing given WS's strong finish yesterday with the S&P 500 moving away from key support in the 1870-1890 area. The US Note future trades marginally higher suggesting a stronger opening for the Bund.

Today, the eco calendar is empty in the euro zone which means that **trading will be sentiment-driven at first**. The Ecofin meeting is a wildcard. In the US, eco data include retail sales, PPI, empire state index, industrial production and Univ. of Michigan consumer confidence. They risk to be a mixed bag (see above). Given that US Treasuries didn't suffer on stellar payrolls, such mixed outcome shouldn't be too harmful either. **On the contrary, it might further boost positive sentiment on the US Treasury market ahead of the long weekend (US markets closed on Monday)**. Especially since more and more Fed governors indicate that doubts about inflation expectations would tend to push off further rate increases (special attention to the inflation component in the Michigan report today!). Fed speakers include influential NY Fed governor Dudley, SF Fed Williams and Dallas Fed Kaplan which could sound similar caution. From a technical point of view, the US Note future nears overbought conditions, which could hamper short term gains.



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 gained marginally ground as global risk eased.

R2	0,7715	-1d
R1	0,7607	
EUR/GBP	0,7561	0,0021
S1	0,7421	
S2	0,7313	

Asian equity markets fail to join the rebound in the US yesterday evening;

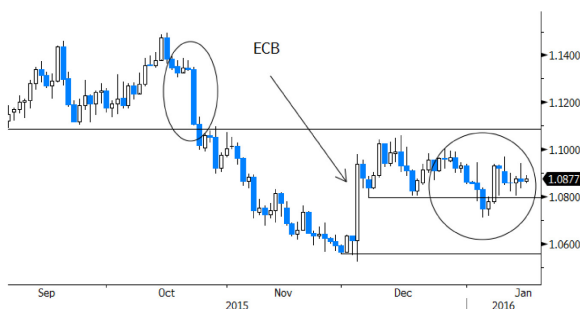
PBOC keeps yuan fixing again little changed

Commodity currencies holding close to the recent lows

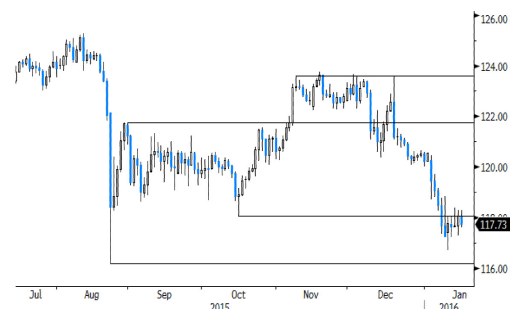
Dollar stalemate persists despite global uncertainty

On Thursday, USD trading was still at the mercy of the swings in global risk sentiment. This time, equity sentiment improved throughout the session. US equities even closed with good gains. Of course, a one day technical improvement in equity sentiment (without high profile economic news) is not enough to conclude that the financial instability is over. So, the impact on other markets, including currency ones, was modest. The dollar reversed earlier losses against the euro (EUR/USD 1.0865 from 1.0877 on Thursday) and the yen (USD/JPY 118.06 from 117.68).

Overnight, most Asian equity indices opened the session with substantial gains after the strong close in the US. However, there was no follow-through price action. The gains evaporated and most Asian markets trade currently even again in the red. Chinese financing data showed a mixed picture. Aggregate financing was higher than expected, but mostly due to off-balance sheet lending, which suggests reluctance from banks sector to provide credit. The PBOC fixed the on-shore yuan marginally weaker. Even so, the onshore yuan trades slightly stronger in the 6.5865 area. The off shore yuan weakens to 6.6170. The HKD is holding relatively weak (USD/HKD in the 7.7850 area.). Brent oil continues to trade in the \$30 p/b area, holding commodity currencies (AUD, CAD, NZD..) near the recent lows against the dollar. The intraday reversal on the Asian equity markets has only a limited impact on EUR/USD (currently 1.0885 area) and on USD/JPY (117.80 area).



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



USD/JPY: looking for a bottom

There are plenty of eco data eco data with market moving potential in the

We see an asymmetrical risk for the dollar

Today, at last, there are plenty potential market moving data, especially in the US (Retail sales, PPI, empire manufacturing, industrial production and Consumer confidence from the university of Michigan). For an in depth analysis see the FI part of this report. We see slight upward risks for core retail sales and the empire manufacturing, but downside risks for the Michigan confidence. From a market point of view, we see somewhat of an asymmetrical risk. Poor US data might reinforce fears on the global economy and be moderately negative for the dollar. On the other hand, data have to be really strong to inspire a genuine improvement in global investor sentiment and to support the dollar in a sustainable way. USD/JPY and EUR/USD held within tight ranges recently, despite the swings in global sentiment. For now, we don't see a trigger to change this pattern of directionless USD trading. For EUR/USD, markets concluded that current global uncertainty won't substantially affect the

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relative position between the Fed and the ECB. So, we see slight downside risks for the dollar today, but EUR/USD and USD/JPY to hold within recent ranges.

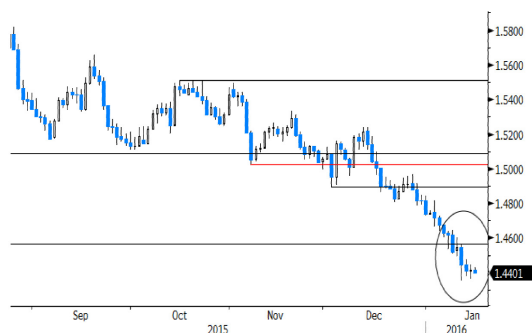
From a technical point of view, EUR/USD failed to regain important resistances at 1.1087 (breakdown) and 1.1124 (62% retracement from the October high). Last week, EUR/USD failed to sustain below 1.0796 support (07 Dec low). Next support is at 1.0650 (76% retracement off 1.0524/1.1060) and at 1.0524. 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). We expect this resistance to be strong and difficult to break. **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 .

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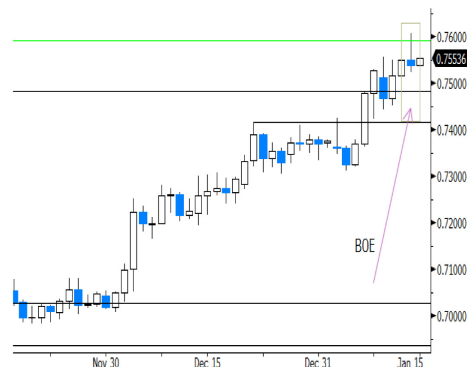
Sterling rebounds slightly after BoE announcement

On Thursday, sterling weakened ahead of the BoE policy announcement, partially due to the risk-off sentiment. EUR/GBP tested the 0.76 area. Cable came within reach of the correction low (1.4352); but a real test didn't occur. **The BoE voted again 8-1 to leave the base rate unchanged**. The tone of the statement was soft, as expected, but not that much different from December and from the November inflation report. Staff projections for growth in Q4 and Q1 were revised slightly lower to 0.5% Q/Q. Recent events (domestically and external) suggest slightly lower inflation short-term, but the MPC still expects inflation to return to target at the end of the policy horizon given current market curves. **Sterling rebounded modestly after the BoE announcement. Call it some kind of 'sell the rumour, buy the fact reaction'. An improvement in global risk sentiment later the session also helped sterling. EUR/GBP closed the session at 0.7539 (from 0.7550); cable at 1.4413 (from 1.4407).**

Today, only the **UK November construction output data** will be published. The series is volatile and a bit outdated so we don't expect a lasting impact on sterling trading. **Yesterday's BoE decision/minutes don't change the picture for sterling trading**. The BoE stays in wait-and see modus as inflation will probably stay low for longer than expected. However is this largely discounted in the ST UK interest rate markets? The February inflation report might slightly amend the BoE's assessment. For now, we keep the view that uncertainty on Brexit and global sentiment are also important drivers for sterling weakness. 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.



EUR/GBP: sterling decline takes a breather after BOE decision, but for how long?



Cable holds near multi-year low

Calendar

Friday, 15 January		Consensus	Previous
US			
14:30	Retail Sales Advance MoM (Dec)	-0.1%	0.2%
14:30	Retail Sales Ex Auto MoM (Dec)	0.2%	0.4%
14:30	Retail Sales Ex Auto and Gas (Dec)	0.4%	0.5%
14:30	Retail Sales Control Group (Dec)	0.3%	0.6%
14:30	PPI Final Demand MoM/YoY (Dec)	-0.2%/-1.0%	0.3%/-1.1%
14:30	PPI Ex Food and Energy MoM/YoY (Dec)	0.1%/0.3%	0.3%/0.5%
14:30	PPI Ex Food, Energy, Trade YoY/MoM (Dec)	0.1%/0.2%	0.3%/0.1%
14:30	Empire Manufacturing (Jan)	-4.00	-4.59
15:15	Industrial Production MoM (Dec)	-0.2%	-0.6%
15:15	Capacity Utilization (Dec)	76.8%	77.0%
15:15	Manufacturing (SIC) Production (Dec)	0.0%	0.0%
16:00	Business Inventories (Nov)	-0.1%	0.0%
16:00	U. of Mich. Sentiment (Jan P)	92.9	92.6
Canada			
15:00	Existing Home Sales MoM (Dec)	--	1.8%
UK			
10:30	Construction Output SA MoM/ YoY (Nov)	0.5%/-0.1%	0.2%/1.0%
EMU			
08:00	EU27 New Car Registrations (Dec)	--	13.7%
11:00	Trade Balance SA (Nov)	21.0b	19.9b
11:00	Trade Balance NSA (Nov)	23.0b	24.1b
France			
08:45	Budget Balance YTD (Nov)	--	-76.2b
Italy			
10:00	CPI EU Harmonized YoY (Dec F)	0.1%	0.1%
10:30	General Government Debt (Nov)	--	2211.8b
Belgium			
15:00	Trade Balance (Nov)	--	1113.7m
Norway			
10:00	Trade Balance NOK (Dec)	--	15.4b
Spain			
09:00	CPI EU Harmonised MoM/YoY (Dec F)	-0.4%/-0.1%	-0.4%/-0.1%
09:00	CPI Core MoM/YoY (Dec)	--/0.9%	0.4%/1.0%
10:00	Trade Balance (Nov)	--	-1888.2m
Events			
10:30	UK - Bank of England Credit Conditions & Bank Liabilities Surveys		
15:00	US - Fed's Dudley Speaks on Economy and Policy in New Jersey		
17:10	US - Fed's Williams gives opening remarks and Q&A		
19:00	US - Fed's Kaplan speaks on Panel in Dallas		
Before market open	Q4 Quarterly results of BlackRock, Wells Fargo & Co, Citigroup Inc, Unilever		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,07	-0,02	US	0,88	-0,03	DOW	16379 16379,05
DE	0,51	0,00	DE	-0,38	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,87	0,01	BE	-0,34	0,00	NIKKEI	17147 17147,11
UK	1,75	0,00	UK	0,48	0,01	DAX	9794,2 9794,20
JP	0,23	-0,01	JP	-0,02	0,00	DJ euro-50	3024 3024,00

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,012	1,105	1,061	Euribor-1	-0,22	0,00	Eonia EUR	-0,24	-0,003
5y	0,234	1,398	1,328	Euribor-3	-0,14	0,00	Libor-1 USD	0,51	0,51
10y	0,874	1,897	1,772	Euribor-6	-0,05	0,00	Libor-3 USD	0,59	0,59
							Libor-6 USD	0,75	0,75

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,08875 0,0018	EUR/JPY	128,16 0,01	-1d	162,3914 0,32	1082,82 -7,94	30,34 -0,01
USD/JPY	117,72 -0,17	EUR/GBP	0,7561 0,0021				
GBP/USD	1,4398 -0,0013	EUR/CHF	1,0931 -0,0026				
AUD/USD	0,6929 -0,0029	EUR/SEK	9,2924 0,02				
USD/CAD	1,4465 0,0120	EUR/NOK	9,5759 -0,02				

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