



## Sunrise

Wednesday, 28 October 2015

### German 10-year breaks below 0.50%

German bonds still profit from the dovish ECB press conference last Thursday. More ECB members strongly suggest an easing will be decided in December. ECB Coeuré suggests a decline of the depo-rate may be one of the measures. The rise of the Bund occurred in the afternoon, while most comments date from the morning. Weaker equities might have played a role.

### Dollar in wait-and-see modus ahead of the Fed policy decision

Yesterday, the dollar showed no clear trend. USD/JPY continued to drift south. EUR/USD was little changed. Today, the focus is on the Fed policy decision/statement. The Fed will probably acknowledge recent soft US (labour) data. This might cause some limited profit taking in the dollar.

### 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 yesterday's session with a loss. **US equities** also lost ground, sliding down intraday after a weak open. Overnight, **Asian equities** are trading in the red, except Japan which shows moderate gains.
- **ECB's Coeuré said that if inflation would go back to 2% slower than expected, that may trigger an adjustment of the deposit facility rate.**
- **Japanese retail sales emphasize the Japanese weakness**, undershooting the market expectations, two days before the Bank of Japan meets. Retail sales were expected to rise 1.1% M/M in September, but rose just 0.7% M/M.
- **Australian inflation was lower than expected, with prices only increasing 1.5% Y/Y (0.5% M/M)**, weakening the Aussie dollar.
- On the **corporate calendar** are the **earnings releases** of **Mondelez International and Amgen**.
- Today, the **market calendar contains the FOMC's rate decision**, but also **Sweden and New Zealand are deciding on their benchmark interest rates**. Also interesting to watch are speeches of ECB's Hansson, Constancio & Praet.

# Rates

Core bonds eke out more gains. Germany outperforms

10-yr German yield < 0.50%!

Portugal continues to underperform

	US yield	-1d
2	0,6331	-0,0041
5	1,3716	-0,0214
10	2,037	-0,0159
30	2,8561	-0,0055

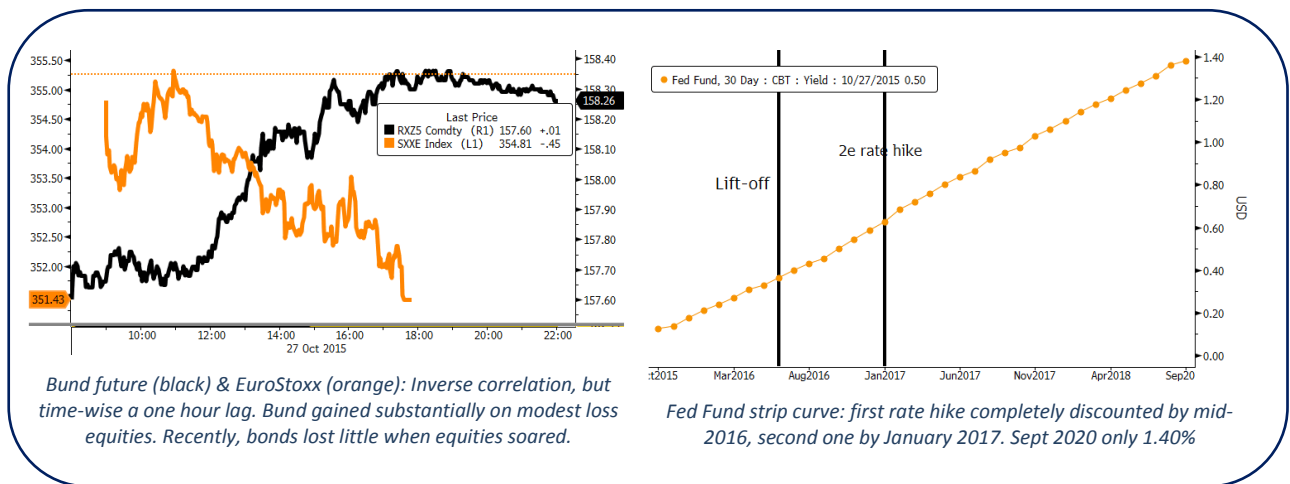
	DE yield	-1d
2	-0,3300	0,0000
5	-0,1270	-0,0240
10	0,4450	-0,0560
30	1,1900	-0,0700

Swedish and New Zealand central banks meet amid some (minor) pressure to act

## German 10-yr yield below key support

Global core bonds eked out more gains today. The dovish bias of global central banks continues to underpin both the Bund and the US Note future. ECB Praet said that there are no taboos in the ECB's effort to lift inflation, further suggesting that the ECB will take additional easing action in December. Also ECB Nowotny rang the alarm bells on the ECB's inflation mission. The German 10-yr yield declined below 0.5% to the lowest level since May. Final technical support before the all-time lows stands at 0.43% (62% retracement from April to June up-leg; see graph). Most important US eco data disappointed (durable goods orders, consumer confidence), but core bonds didn't additionally profit, even if it increases chances that the Fed lift-off will be postponed into 2016. In a daily perspective, the German yield curve bull flattened with yields 1.4 bps (2-yr) to 7.1 bps (30-yr) lower. Changes on the US yield curve were much lower. They fell between -1.6 bps (2-yr) and -3 bps (5-yr). The belly of the curve outperformed the wings. On intra-EMU bond markets, 10-yr yield spreads versus Germany widened marginally with Portugal and Greece (+ 7/8 bps) underperforming.

Today, the market calendar contains the FOMC's rate decision, but also Sweden and New Zealand decide on monetary policy. The Swedish Riksbank is expected to hold its policy rate at -0.35%. However, 2 out of 18 analysts already expect a further rate cut. Pressure of the ECB might push the Swedes to move further down. The RBNZ also decides on its interest rates tonight. The majority expects the interest rate to remain unchanged at 2.75%, although a 4 out of 18 analysts foresee a rate cut.



FOMC to stand put, but will we get more clarity on their reaction function?

R yield

We expect the Federal reserve to leave policy unchanged. Market chances for a rate hike are only 4%. The Fed needs more information, which it doesn't have at this juncture. Eco data have been weak since the previous meeting, suggesting that the US economy is cooling down. A soft patch or a more malign downturn? More information is needed. Since the September meeting, a number of governors, including two board governors Brainard and Tarullo, feared that inflation wouldn't move fast enough to the target in the medium term, questioning the relationship between full employment, higher wages and ultimately higher inflation (Phillips curve). They suggested that the lift-off might better be postponed until signs of wage inflation became visible. This in fact

questions the reaction function of the Fed, as perceived by the Fed chair and vice-chair. So, markets are confused by the Fed's policy. We will closely look how the Fed perceives recent weak payrolls and whether they still support Yellen's reaction function, which implies that in case of stronger labour market conditions, one should not wait to see inflation actually going up before raising rates. However, the press release will admit the weaker data in its first paragraph, but it is unlikely that the FOMC will give already further more concrete guidance about the timing/conditions for the lift-off.

### More weakness in German primary auction?

**Today, the German Finanzagentur taps the on the run 10-yr Bund (€3B 1% Aug2025).** Total bids at this year's Bund auctions averaged a meagre €3.29B. On two occasions, they even fell below €3B. In the run-up to the auction, the Bund cheapened marginally in ASW spread terms. On secondary markets, sentiment for German bonds is positive in the current climate, but that doesn't necessarily bode well for primary auctions. So overall, we fear another weak German auction. **In the US, the Treasury holds a \$15B 2-yr Floating Rate Note auction and a \$35B 5-yr Note auction.**

R2	160,62	-1d
R1	158,38	
<b>BUND</b>	<b>158,32</b>	0,0000
S1	155,71	
S2	155,41	

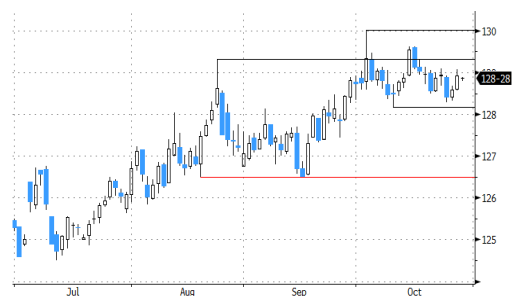
### Today: Dovish Fed statement?

**Overnight**, Asian stock markets trade slightly lower with China underperforming and Japan slightly outperforming. The US Note future trades stable. **Congressional leaders and the White House agreed on a budget deal that suspends the debt limit** until March of 2017. This takes away an event risk, but markets didn't seem to worry. **ECB Coeure said that the ECB may need to cut its deposit rate further**, confirming the recent very dovish central bank rhetoric. Overall, we expect a neutral to slightly positive opening for the Bund.

**Today's eco calendar is apart from the Fed meeting (see above).** We expect the statement to include recent downbeat economic developments, which would further put in doubt a December lift-off. **That's a short term positive for US Treasuries.** Dovish comments by ECB-members underpin EMU bond markets. **Commodity prices** are again sliding towards the recent lows, which underpins bonds further. **Main equity indices remain a wildcard.** The ECB's very dovish message easily pushed EMU and US equities above important resistance levels, marking an end to the downward correction from a technical point of view. If risk sentiment further improves (eg on dovish Fed statement), that could hamper more gains for core bonds.



German Bund: Dovish Draghi underpins Bund



US Note future: Test of high on dovish Fed?

# Currencies

## Counting down to the Fed policy statement

Yesterday, currency traders counted down to today's FOMC decision. The US data (durable orders and consumer confidence) were below consensus but had only a very limited and temporary impact on USD trading. USD/JPY drifted lower in the 120 big figure and closed the session at 120.46 (from 121.1 on Monday). EUR/USD stayed within reach of the post-ECB low. The pair ended the session at 1.1051, little changed from the 1.1058 close the previous day.

*Dollar rebound peters out*

*Asian markets stay in cautious risk-off modus.*

R2	1,1302	-1d
R1	1,114	
EUR/USD	1,104	-0,0016
S1	1,0989	
S2	1,0848	

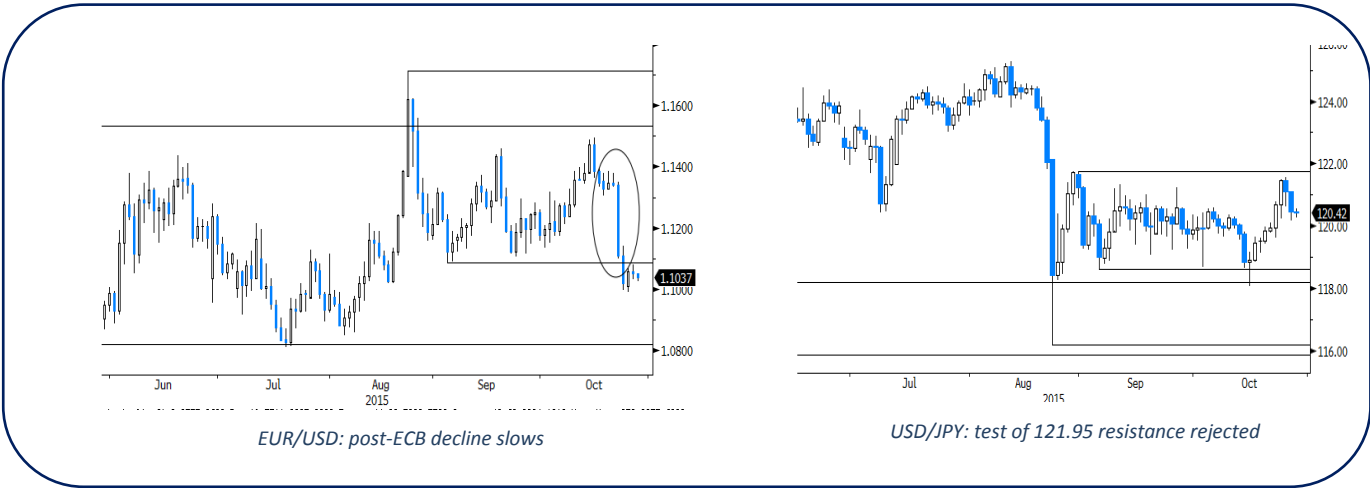
*The US trade deficit is the most important data series for USD trading.....*

*but the tone of the Fed statement will set the tone for next USD move*

*Will the Fed adopt a softer tone, too?*

Overnight, most Asian equity indices are trading in the red with China underperforming (losses of about 1%). Japan outperforms. Even so, USD/JPY (currently around 120.40) and EUR/USD (1.1035 area) are little changed from yesterday's closing levels. The Australian Q3 CPI was reported at 0.5% Q/Q and 1.5% Y/Y, well below the market consensus (1.7%). Core inflation was also lower than expected. AUD/USD dropped from the 0.7200 area to the 0.7120 area as markers see rising chances for an additional RBA rate cut.

Today, there are only second tier eco data in Europe. We keep an eye at the **Riksbank policy decision and the monetary policy report**. The Riksbank is one of the protagonists in implementing an extremely easy monetary policy to fight low inflation, even as economic growth remains at a fairly decent level. Only a small minority of analysts expect further easing. However, given the recent soft ECB stance, the Riksbank decision deserves monitoring. **In the US, the September trade balance will be published**. Of late, US trade data showed a rising deficit. This might weigh on the US Q3 GDP (via the contribution of net exports). For September a limited improvement in the deficit is expected from USD 66.6 bln to 64.3 bln. Another negative surprise might fuel the debate on the valuation of the US dollar. However, any impact on the dollar (or other markets) will be limited ahead of the FOMC decision. The Fed is expected to leave its policy unchanged. In the statement, it will probably acknowledge recent soft US (labour market) data. The question is whether the Fed will give any hints that a December rate hike is becoming less likely. The fed will not pre-commit, but markets might see a 'softer' statement as the Fed is walking away from a December rate hike.



So, **in a day-to-day perspective**, markets will probably be in wait-and-see modus ahead of the Fed policy decision. **A softer tone in the Fed communiqué might be a slightly negative for the dollar. However, the topside in EUR/USD will probably remain capped by recent very aggressive ECB talk (cfr. Praet and Coeure yesterday).** USD/JPY might be a bit more vulnerable as a further BOJ easing later this week is far from a done thing.

**In a longer term perspective, global markets recently** focused on the impact of weaker US data on the Fed rate hike path. That made the dollar vulnerable. **Last week, markets were positioned for soft ECB speak, but at the press conference, ECB Draghi went much further towards additional easing than markets anticipated.** The topside in EUR/USD (1.1460/95 resistance) was extensively tested, but the test was rejected, making it better protected. The ECB is preparing markets for a new round of monetary easing which pushed EUR/USD below the key 1.1087/1.1105 support. If confirmed, this break paints a multiple top formation on the charts. The targets of this formation are in the low 1.07 area.

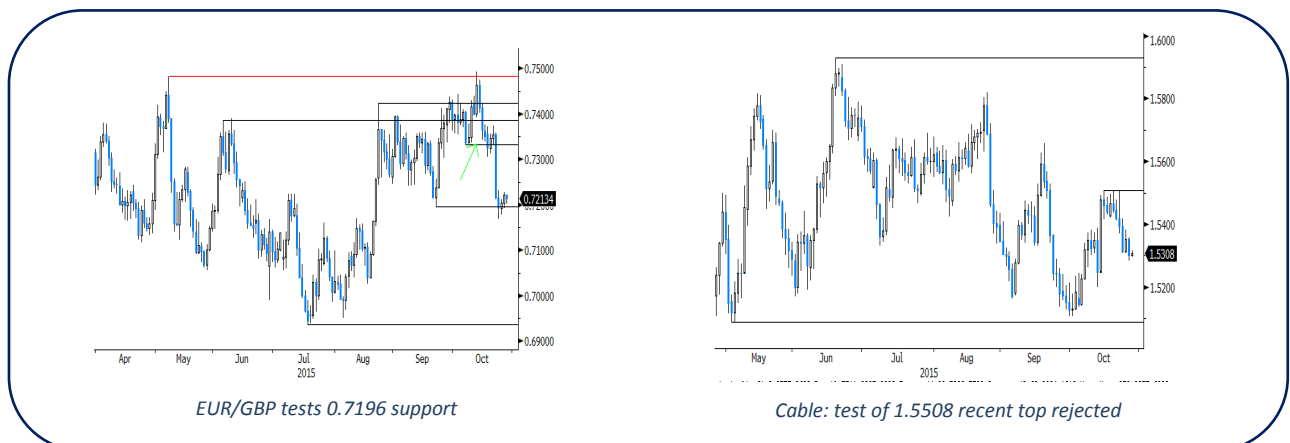
R2	0,7374	-1d
R1	0,723	
EUR/GBP	<b>0,721</b>	0,0007
S1	0,7168	
S2	0,7026	

### Q3 UK GDP weighs slightly on sterling

**Yesterday**, UK Q3 growth was reported at 0.5% Q.Q and 2.3% Y/Y, slightly below the market consensus (0.6% Q/Q). Manufacturing activity and construction were unexpectedly weak. Services remained the key driver for UK growth (0.7%). Sterling lost moderately against the euro and the dollar after the publication of the report. Later in the session, global factors prevailed again for sterling trading. EUR/GBP closed the session at 0.7221 (from 0.7203). Cable ended the session at 1.5300 (from 1.5352). So, the weaker than expected Q3 GDP triggered some modest losses on a daily basis.

**Today**, there are no important eco data. We expect a rather calmer trading session for sterling trading as global markets are in wait-and-see modus going into the Fed policy decision. Soft ECB comment might continue to cap the topside in EUR/GBP.

**Looking at the broader picture**, the soft tone at the ECB press conference pushed EUR/GBP back lower in the longstanding sideways range. The pair dropped temporarily below the 0.7196 support and the test of this level is ongoing. Euro weakness currently prevails, but EUR/GBP looks a bit oversold short-term. We look to sell EUR/GBP on upticks.



# Calendar

Wednesday, 28 October		Consensus	Previous
<b>US</b>			
12:00	MBA Mortgage Applications (Oct 23)	--	11.8%
13:30	Advance Goods Trade Balance (Sep)	-\$64.800b	-\$67.187b
19:00	<b>FOMC Rate Decision (Upper Bound) (Oct 28)</b>	<b>0.25%</b>	<b>0.25%</b>
<b>Japan</b>			
00:50	<b>Retail Trade MoM/YoY (Sep)</b>	<b>A: -0.2%/0.7%</b>	<b>0.0%/0.8%</b>
00:50	Large Retailers' Sales (Sep)	A: 1.7%	1.8%
06:00	Small Business Confidence (Oct)	A: 48.7	49.0
<b>China</b>			
02:45	Westpac-MNI Consumer Sentiment (Oct)	A: 109.7	118.2
<b>Germany</b>			
08:00	Import Price Index MoM/YoY (Sep)	-0.2%/-3.6%	-1.5%/-3.1%
08:00	GfK Consumer Confidence (Nov)	9.4	9.6
<b>France</b>			
08:45	Consumer Confidence (Oct)	97	97
<b>Italy</b>			
10:00	Consumer Confidence Index (Oct)	111.8	112.7
10:00	Business Confidence (Oct)	103.5	104.2
10:00	Economic Sentiment (Oct)	--	106.2
<b>Norway</b>			
10:00	Retail Sales W/Auto Fuel MoM (Sep)	0.3%	-0.4%
10:00	Unemployment Rate AKU (Aug)	4.4%	4.3%
<b>Sweden</b>			
09:30	<b>Riksbank Interest Rate (Oct 28)</b>	<b>-0.350%</b>	<b>-0.350%</b>
<b>Australia</b>			
01:30	CPI QoQ/YoY (Q3)	A: 0.5%/1.5%	0.7%/1.5%
<b>New Zealand</b>			
21:00	<b>RBNZ Official Cash Rate</b>	<b>2.75%</b>	<b>2.75%</b>
<b>Events</b>			
09:30	<b>Sweden - Riksbank Rate Decision, Monetary Policy Report</b>		
10:00	<b>EMU – ECB’s Hansson speaks on outlook for Euro area</b>		
10:15	<b>EMU - ECB Executive Board member Peter Praet Speaks in Riga</b>		
10:30	<b>Italy - Bank of Italy Governor, Finance Minister At World Saving Day</b>		
11:03	Sweden - Holds bond auction		
11:30	Germany - Eur 3bn 1% Aug 2025 Bund		
12:15	Norway - Holds bond auction		
15:45	<b>EMU - ECB Vice President Vitor Constancio Speaks in Berlin</b>		
17:00	US - Holds 2-year FRN auction & 5-year note auction		
Before market open	Earnings releases from Mondelez International, Amgen		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,04	-0,02	US	0,63	0,00	DOW	17581 17581,43
DE	0,45	-0,06	DE	-0,33	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,75	-0,05	BE	-0,28	-0,01	NIKKEI	18903 18903,02
UK	1,76	-0,07	UK	0,49	-0,03	DAX	10692,19 10692,19
JP	0,30	-0,01	JP	0,01	-0,01	DJ euro-50	3381 3381,01

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,137 0,007
3y	0,017	0,968	1,078	Euribor-1	-0,12	0,00	Libor-1 USD	0,51 0,51
5y	0,226	1,361	1,367	Euribor-3	-0,06	0,00	Libor-3 USD	0,58 0,58
10y	0,828	1,954	1,791	Euribor-6	0,01	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,104	-0,0016	EUR/JPY	132,93	-0,48		191,3357	1170,4	46,77
USD/JPY	120,435	-0,25	EUR/GBP	0,721	0,0007	-1d	-0,94	5,80	-0,43
GBP/USD	1,5304	-0,0040	EUR/CHF	1,0895	0,0033				
AUD/USD	0,7124	-0,0114	EUR/SEK	9,3858	-0,01				
USD/CAD	1,3256	0,0092	EUR/NOK	9,3457	0,11				

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