



Sunrise

Friday, 22 January 2016

Rates: Profit taking ahead of the weekend?

A dovish ECB president pre-announced additional easing in March. The Bund tested the contract high but failed to break higher. During US dealings, oil prices started an impressive rebound, triggering an underperformance of US Treasuries. Profit taking on core bonds might be in the cards today if risk sentiment improves/oil rebounds further.

Currencies: Dollar rebounds after soft Draghi comments

Yesterday, EUR/USD nosedived as ECB's Draghi almost 'pre-announced' further easing in March. However, risk-on sentiment and a rebound in oil also supported the likes of USD/JPY. Sterling tries to move away from the recent lows too.

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	↘

- Expectations for more central bank stimulus and a rebound in the oil price supported **US Equities** yesterday with the S&P ending 0.52% higher. This morning, **Asian shares trade in positive territory too. Japanese stocks outperform on hopes of additional BOJ stimulus.** The Nikkei closed almost 6% higher.
- **Crude oil prices rebounded yesterday supported by hopes on further ECB stimulus** and as US crude stockpiles rose less than forecast last week. **Both the Brent and WTI crude oil price extended their rebound this morning, rising back above \$30/barrel.**
- Rating agency **Fitch** warned yesterday it **could cut Poland's A- credit rating if the country's decision to convert Swiss franc-dominated mortgages significantly undermines the health of the banking sector.**
- Bank of England MPC member **Weale** said in an interview yesterday **he would not want to hold off on voting for a rate hike until he was absolutely clear that it was the right decision**, adding that the drop of sterling could offset the drag on inflation that will come from the latest plunge in the oil price.
- **German business software provider SAP reported a 2% decline in net profit for the fourth quarter**, but **raised its 2017 outlook** for revenue and profit to the upper end of expectations. **Schlumberger**, the world's largest oilfield services company, swung to a loss in the fourth quarter as its revenue fell 39% due to the prolonged energy slump. The company said it plans to cut 10 000 jobs.
- Today, the **eco calendar** contains the first estimate of **the euro zone PMI's** for January, the US market manufacturing PMI, US existing home sales and UK retail sales. **ECB President Draghi speaks at the World Economic Forum in Davos.**

Rates

	US yield	-1d
2	0,8487	0,0237
5	1,4681	0,0501
10	2,0502	0,0592
30	2,8216	0,0619

Dovish Draghi supports Bunds

US Treasuries underperform as oil prices rebound

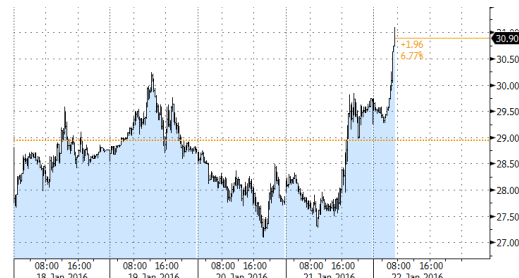
	DE yield	-1d
2	-0,4490	-0,0340
5	-0,2266	-0,0418
10	0,4510	-0,0350
30	1,2363	-0,0128

Dovish Draghi hints at March easing

Yesterday, global core bonds traded with a small upward bias going into the ECB meeting. The ECB kept policy unchanged, but at the press conference, ECB president Draghi effectively pre-announced additional easing in March. He said that **policy rates will remain at present or lower levels for extended period of time to come. Downside risks to the economy and inflation increased in 2016. Therefore, the ECB's governing council unanimously decided that it was necessary to review and possibly reconsider its monetary policy in March,** when new inflation forecasts (including 2018) are available. **We believe that chances are now for at least another 10 bps deposit rate cut in March, eventually supplemented by some other measures. For a full review of the meeting, read our FLASH REPORT.** The Dovish comments lifted bonds further with the Bund testing the contract high. During US dealings, oil prices started an impressive rally (Brent > \$30/barrel), pulling down US Treasuries. German Bunds outperformed at that stage and remained near the highs as Draghi's comments echoed through (European) markets. **At the end of the day,** German yields dropped 1.1 bp (30-yr) to 4.1 bps (5-yr) lower. The US yield curve bear steepened with yields 1.2 bps (2-yr) to 5.8 bps (30-yr) higher. On intra-EMU bond market, 10-yr yield spread changes versus Germany narrowed up to 6 bps with Portugal underperforming (+20 bps).



US Note future (orange) and German Bund (black): Bund remains near high on dovish Draghi while T-Note suffers from rebound oil price



Brent oil price (intraday, this week): Start of a serious rebound?

Downside risks for EMU PMI's

Today, the **eco calendar** contains the first estimate of the January **EMU PMI's**, the US market manufacturing PMI and US existing home sales. Attention will also go to Davos, where ECB's Draghi and Coeure are scheduled to speak.

In December, the **EMU composite PMI** picked up further, supported by an improvement in the manufacturing PMI, while the services PMI stayed unchanged from the previous month. For January, the consensus expects a limited drop in the composite PMI from 54.3 to 54.1. A slowdown is forecasted in the manufacturing PMI (53 from 53.2), while the services PMI is expected to have stabilized at 54.2. For both the manufacturing and services PMI, we believe that the risks are for a **downward surprise** as global growth concerns might have weighed on sentiment.

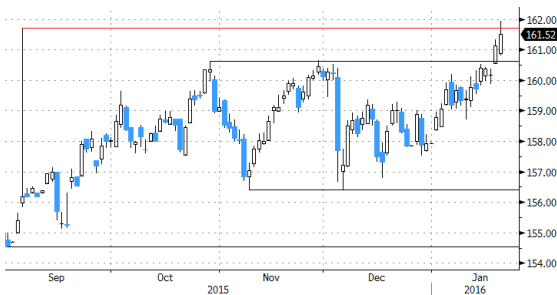
In the US, the **Markit manufacturing PMI** is expected to have weakened slightly further in January, from 51.2 to 51.0 after dropping to its lowest level since October 2012 in December. Finally, **US existing home sales** are forecast to have rebounded by 9.2% M/M to a total level of 5.20M in December, following a significant drop in the month before. The National Association of Realtors (NAR) attributed the decline to delays in closings associated with new mortgage disclosure rules ("Know Before You Owe"), that took effect in early October. Following significant declines in the previous two months, we believe that the risks for December are for a **stronger outcome**.

R2	162	-1d
R1	161,94	
BUND	161,62	0,7200
S1	160,38	
S2	156,4	

Today: Profit taking if sentiment improves

Overnight, Asian equity markets join yesterday's European equity rally on the back of the ECB's (and other CB's???) easing expectations and the rebound in oil prices. Japanese stocks outperform and gain more than 5% in the run-up to next week's BoJ meeting. Brent oil moved above \$30/barrel and the US Note future trades lower.

Today's eco calendar contains EMU PMI data. Risks are on the downside of expectations. Such outcome would further boost ECB easing expectations after yesterday's dovish meeting and is positive for core bonds. **However, if risk sentiment on equity markets improves and the comeback of oil prices continues, we think the Bund/US Note future might be prone to profit taking ahead of the weekend given yesterday's failed test of the contract high and near-overbought conditions.** We hold our view that there is little value in the Bund/US Note future when 10-yr yields drop respectively below 0.50% and 2%. The front end of European yield curves is expected to remain near record low levels as we expect at least a 10 bps deposit rate cut at the March ECB meeting. Therefore, a potential corrective move could trigger bear steepening of the curves.



German Bund: failed test of contract high on dovish Draghi. Profit taking going into the weekend if risk sentiment improves?



US Note future: higher oil prices pull Treasuries away from resistance levels

Currencies

Dollar rebounds as global sentiment improves after Draghi comments

R2	1,106	-1d
R1	1,0985	
EUR/USD	1,08335	-0,0071
S1	1,0711	
S2	1,0524	

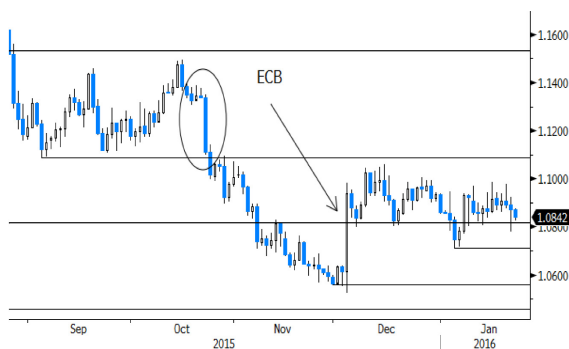
Asian equities join post-ECB rebound

Yen weakness. Dollar extends rebound

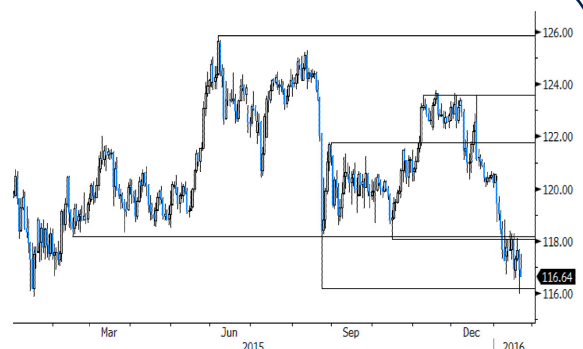
USD/JPY under pressure, but no break yet

On Thursday, EUR/USD and USD/JPY initially traded sideways. There were no important eco data and as equities entered calmer waters. The ECB press conference was the game-changer for global trading. ECB's Draghi hinted to the possibility of further easing in March. The euro nosedived. EUR/USD dropped briefly below 1.08 but rebounded as the gains on US equity markets remained moderate. EUR/USD closed the session at 1.0874 (from 1.0890 on Wednesday). USD/JPY hovered up and down but finally succeeded a nice rebound, closing the session at 117.70 (from 116.94)

This morning, Asian equities show decent gains with Japan outperforming (gains over 5%). In the wake of yesterday's ECB press conference, investors apparently embrace the idea that major central bankers might still take action to ease global tensions if necessary. This is a forceful enough trigger for a countermove after recent sell-off. The rebound in the oil price is a positive, too. The PBOC again set the fixing of the yuan against the dollar little changed. The off-shore yuan trades little changed. The HKD rebounded sharply and trades currently at 7.7975. Commodity currencies are also in very good shape . AUD/USD trades again north of 0.70. USD/CAD dropped below 1.43. Yesterday afternoon, it was not clear that the dollar would be able to maintain its post-ECB gains. However, this morning the dollar is holding strong. EUR/USD trades in the 1.0825 area. USD/JPY trades north of 118. The yen is weakening as markets see a rising chance from more BOJ easing, maybe already at next week's meeting. The dollar also received interest rate support as US yields rose, probably due to a higher oil price.



EUR/USD trending south after ECB comments



USD/JPY: key 116 area under test

A poor EMU PMI might further cap the topside in EUR/USD

Global context looks USD supportive

Today, the **eco calendar** contains the first estimate of the **eurozone PMI's for January**, the US Markit manufacturing PMI and US existing home sales. The consensus is looking for a limited drop in the composite PMI from 54.3 to 54.1. For both the manufacturing and services PMI, we believe that the risks are for a **downward surprise** as global growth concerns might have weighed on sentiment. **A disappointing figure might cement market expectations for additional ECB easing. This might be a slightly negative for the euro.**

The US data will probably only have a limited impact on USD trading. Of course, global factors will also do their job. At this stage it looks that the rebound of oil might have some further to go. US and European equity futures are also in positive territory. So, the dollar might get additional interest rate support. **So, the topside in EUR/USD looks well protected. We are a bit more cautious on the upside potential in USD/JPY as we think that a substantial further easing of the BOJ is no done thing yet.**

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). Two weeks ago, EUR/USD failed also to sustain below 1.0796 support (07 Dec low). This area was again tested yesterday. 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 over the previous days. 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. After the ECB announcement, we look to sell EUR/USD on upticks for return action lower in the range. **The picture for USD/JPY remains negative below 120, but the pair tries to build a bottom.** Still, we think that a sustained return above 120 will be difficult.

R2	0,7875	-1d
R1	0,7755	
EUR/GBP	0,7608	-0,0076
S1	0,7555	
S2	0,7313	

Sterling rebounds

On Thursday, sterling was under slight pressure during the European morning session. EUR/GBP came within reach of the recent high (0.7755), but a break didn't occur. The Brexit debate was also on the radar as UK PM Cameron spoke in Davos. In the meantime, cable touched a new cycle low below 1.41.

In the afternoon, the soft ECB comments pushed EUR/GBP sharply lower. The pair closed the session at 0.7647 (from 0.7674) area. Cable rebounded too, at least partially supported by a rebound in the oil price. The pair ended the day at 1.4221 (from 1.4191).

Today, the UK December retail sales will be published. A limited setback after an extremely strong November report is expected. (-0.3% M/M, 4.4% Y/Y). **We see slight downside risks to the consensus.**

The global context will also be important for sterling. A further rebound in oil and a (temporary?) improvement in global sentiment on risk might ease the pressure on sterling and even trigger some kind of a short-squeeze. So, in day-to-day perspective sterling might regain some further ground. In a longer-term perspective, it's much too early to conclude that the headwinds are over.

In a longer term perspective, uncertainty on Brexit and global negative risk sentiment are 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 might enter calmer waters.

Calendar

Friday, 22 January		Consensus	Previous
US			
14:30	Chicago Fed Nat Activity Index (Dec)	-0.15	-0.30
15:45	Markit US Manufacturing PMI (Jan P)	51.0	51.2
16:00	Existing Home Sales MoM (Dec)	9.2%/5.20m	-10.5%/4.76m
Canada			
14:30	Retail Sales MoM (Nov)	0.2%	0.1%
14:30	Retail Sales Ex Auto MoM (Nov)	0.4%	0.0%
14:30	CPI NSA MoM/YoY (Dec)	-0.4%/1.7%	-0.1%/1.4%
14:30	CPI Core MoM/YoY (Dec)	-0.03%/2.0%	-0.3%/2.0%
Japan			
03:00	Nikkei Japan PMI Mfg (Jan P)	A: 52.4	52.6
China			
02:45	MNI January Business Indicator		
UK			
10:30	Retail Sales Ex Auto Fuel MoM/YoY (Dec)	-0.3%/3.5%	1.7%/3.9%
10:30	Retail Sales Inc Auto Fuel MoM/YoY (Dec)	-0.3%/4.4%	1.7%/5.0%
10:30	Public Finances (PSNCR) (Dec)	--	5.4b
10:30	Public Sector Net Borrowing (Dec)	--	13.6b
10:30	PSNB ex Banking Groups (Dec)	10.5b	14.2b
EMU			
10:00	Markit Manufacturing PMI (Jan P)	53.0	53.2
10:00	Markit Services PMI (Jan P)	54.2	54.2
10:00	Markit Composite PMI (Jan P)	54.1	54.3
Germany			
09:30	Markit/BME Manufacturing PMI (Jan P)	53.0	53.2
09:30	Markit Services PMI (Jan P)	55.5	56.0
France			
09:00	Markit Manufacturing PMI (Jan P)	51.3	51.4
09:00	Markit Services PMI (Jan P)	50.1	49.8
Events			
	SAP (bef mkt);General Electric (bef mkt) Announce Q4 Earnings		
08:45	ECB President Draghi Speaks in Davos		
10:00	ECB Survey of Professional Forecasters		
10:00	ECB's Nowotny briefs Journalists in Vienna		
13:00	BOE's Cunliffe Speaks at Bruegel in Brussels		
13:00	ECB's Coeure Speaks in Davos		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,05	0,06	US	0,85	0,02	DOW	15883 15882,68
DE	0,45	-0,04	DE	-0,45	-0,03	NASDAQ	for Exch - NQJ #VALUE!
BE	0,77	-0,06	BE	-0,38	-0,03	NIKKEI	16959 16958,53
UK	1,68	0,06	UK	0,41	0,01	DAX	9574,16 9574,16
JP	0,24	0,01	JP	-0,01	0,00	DJ euro-50	2944 2943,92

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,24 -0,002
3y	-0,087	1,065	0,992	Euribor-1	-0,23	0,00	Libor-1 USD	0,51 0,51
5y	0,131	1,389	1,251	Euribor-3	-0,14	0,00	Libor-3 USD	0,59 0,59
10y	0,765	1,894	1,689	Euribor-6	-0,06	-0,01	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,08335	-0,0071	EUR/JPY	127,93	0,71		156,3184	1097,95	30,66
USD/JPY	118,13	1,41	EUR/GBP	0,7608	-0,0076	-1d	-3,16	-4,65	2,97
GBP/USD	1,4233	0,0049	EUR/CHF	1,093	-0,0006				
AUD/USD	0,7027	0,0131	EUR/SEK	9,2785	-0,08				
USD/CAD	1,4245	-0,0267	EUR/NOK	9,5044	-0,19				

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