



Sunrise

Monday, 18 January 2016

Rates: Sentiment-driven, low-volume trading

Today, the eco-calendar is empty both in the eurozone and the US, which means that trading will be sentiment-driven. EMU markets might be numbed ahead of Thursday's ECB meeting. US markets are closed for Martin Luther King Day, suggesting low volumes. This could cause erratic moves. The Bund is close to 160.66 resistance.

Currencies: dollar losses contained despite poor US eco data

On Friday, the dollar came temporary under additional pressure as the US eco data disappointed and as the equity sell-off accelerated. However, at the end of the day, the losses of the dollar against the euro still remained modest. USD/JPY was hit harder. Today, USD trading will be technically in nature as US markets are closed. Oil remains a wildcard.

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 plunged again more than 2%** on Friday spurred by disappointing retail sales and a further drop in the oil price. **In Asia, most shares trade again in negative territory. Chinese stocks reversed early losses**, trading currently with limited gains.
- The oil price sell-off continues this morning with the **Brent trading around \$28.30/barrel** as the lifting of sanctions on Iran will push more supply on the market. The WTI oil price also remains under pressure, trading around \$28.80/barrel.
- **The People's Bank of China confirmed today it will start implementing a reserve requirement ratio on offshore banks' domestic deposits.** The move will be effective next week and should help set up a long-term mechanism to regulate cross-border yuan fund flows and would help offshore financial institutions better manage their yuan liquidity, the PBOC added.
- **Rating agency Standard & Poor's unexpectedly cut Poland's credit rating to BBB+ from A-**, saying the government has weakened the independence of key institutions. The outlook was lowered to negative. Fitch confirmed the Polish A-rating and Moody's confirmed its A2 rating both with stable outlook. **The zloty weakened sharply trading around 4.50 EUR/PLN currently.**
- **UK Rightmove house prices picked up by 0.5% M/M in January**, following declines in November and December, although prices in the capital of London dropped by 0.9% M/M. Annually, house prices are up by 6.5% Y/Y.
- Today, **US markets are closed in observance of Martin Luther King Day**, but also in Europe, the eco calendar is empty.

Rates

US curve continues to price out Fed tightening

German curve flattens but advance is modest (given the already low levels)

Risk off still no major item peripherals, even as Portugal (and Greece) loses some ground

	US yield	-1d
2	0,85	-0,0324
5	1,456	-0,0408
10	2,0365	-0,0384
30	2,8178	-0,0490

Weakness in US data source of concern even as recession still a low chance event

Today's calendar uneventful, as US markets are closed (MLK Day)

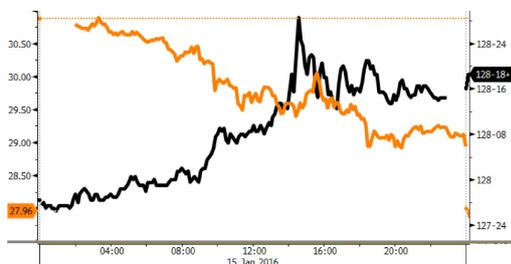
	DE yield	-1d
2	-0,3890	-0,0080
5	-0,1493	-0,0189
10	0,4845	-0,0242
30	1,3100	-0,0490

Core bonds profit from weak stocks, oil and US data

Global core bonds had a strong run on Friday. New cycle lows for oil prices (\$28.82/barrel for Brent), crashing equity markets (-2.16% S&P, -2.82% EuroStoxx), the long weekend ahead in the US and weak US eco data were the perfect breeding ground for core bonds. At the end of the session, the German yield curve flattened with yields 1.1 bp (2-yr) to 3.3 bps (10-yr and beyond) lower. The Bund approached, but did not really test the contract high at 160.66. The US yield curve flattened too with yields 4.1 bps (2-yr) and 7.2 bps (30-yr) lower. The 10-yr yield now flirts with the 2% support level. **The curve movement suggests that investors reposition for a scenario of less Fed rate hikes this year following the dovish shift of several governors, highlighting subdued inflation expectations.** The US 2-yr Note yields now 0.85% versus a top of almost 1.10% towards the end of 2015. The implied probabilities of the Fed fund future now show a 27% chance of a 25 bps hike at the March meeting, 31% at the late April meeting and 44% at the June meeting. Only the September meeting has a majority (56%) for a rate hike. On **intra-EMU bond** markets, 10-yr yield spread changes versus Germany were little changed with the exception of Portugal (+8 bps) and Greece (+33 bps).

US retail sales, industrial production and Empire Manufacturing business confidence Index were a lot weaker than expected. Only the Michigan consumer sentiment could improve with inflation expectations mixed. **NY Fed governor Dudley** was neutral. The economic outlook hasn't changed much since the December FOMC meeting. The gap in rate-path expectations between markets and the FOMC isn't a concern, he added. Core inflation is quite stable despite the energy-price drop. However, *"with respect to the risks to the inflation outlook, the most concerning is the possibility that inflation expectations become unanchored to the downside"*.

Today, **the eco calendar is empty** with **US markets closed in observance of Martin Luther King Day.**



T-Note future (black) and oil price (orange): T-Note future jumps higher as oil and equities drop, but stabilizes as US equities don't cede additional ground after opening



S&P: One day jump was dead cat bounce, but crucial support, while under test, not broken yet.

R2	161,71	-1d
R1	160,66	
BUND	160,28	0,5300
S1	156,4	
S2	154,54	

EMU Supply from Finland, Spain and France

This week's EMU bond supply comes from Finland, France and Spain.

Tomorrow, the Finnish treasury starts by tapping the on the run 5-yr RFGB (0.375% Sep2020) and 30-yr RFGB (2.625% Jul2042) for a combined €1.5B. On Thursday, the French debt agency launches a new 3-yr OAT (0% Feb2019) and taps the on the run 5-yr OAT (0.25% Nov2020) & off-the-run 10-yr OAT (2.25% Nov2022) for a combined €7.5-8.5B. Additionally, they'll raise €1-1.5B via inflation-linked bonds. The Spanish treasury auctions a new 3-yr Bono (0.25% Jan2019) and the on the run 15-yr Obligacion (1.95% Jul 2030). The auction size still needs to be determined. **This week's auctions won't be supported by bond redemptions.**

Today: Sentiment-driven, low-volume trading

Overnight, most Asian bourses trade somewhat lower with China outperforming after the central bank imposed a reserve requirement on offshore RMB deposits. The oil price opened at new cycle lows (Brent < \$28/barrel) after international sanctions on Iran were lifted. The US Note future trades more or less stable.

Today, the eco calendar is empty both in the euro zone and the US which means that **trading will be sentiment-driven. EMU markets might be numbed ahead of Thursday's ECB meeting. US markets are closed for Martin Luther King Day, suggesting low volumes This could cause erratic moves so we have no strong view for today.**

This year, sentiment turned again in favour of core bonds on the back of crashing equities (S&P 500 at key support area 1870/1890), evolutions in China, lower oil prices and Fed speak. More and more Fed governors indicate that doubts about inflation expectations would tend to push off further rate increases. **From a technical point of view, the US Note future nears overbought conditions, which could hamper short term gains. The Bund approaches key resistance (160.66).**



German Bund: Sideways trading range; ready for test of 160.66 resistance.



US Note future: Dovish reaction on payrolls and Fed speak suggests that Asian/Chinese turmoil is key for markets at this stage.

Currencies

Dollar declines as equity sell-off accelerates and as US eco data disappoint

R2	1,106	-1d
R1	1,097	
EUR/USD	1,0888	0,0000
S1	1,0711	
S2	1,0524	

Asian equity markets trade mixed to modestly lower.

PBOC sets yuan fixing marginally stronger

Off shore yuan rises on additional PBOC measures

Today, trading in the major USD cross rates will probably be technical in nature

US markets are closed and there are few important eco data in the Europe

Dollar decline remains moderate given poor US data

On Friday, global investor sentiment deteriorated again, but as often recently the negative impact on the dollar remained initially moderate. However, during the US trading session, the eco data, including the retail sales, were also weaker than expected. This put the dollar under additional pressure. EUR/USD traded temporary in the high 1.09 area, but the dollar regained part of the losses as the downward pressure on US equities eased after the opening. EUR/USD closed the session at 1.0916, from 1.0865 on Thursday. The losses in the USD/JPY were still more outspoken. The pair ended the session at 116.98, from 118.05.

Overnight, Asian equities trade mixed, mostly slightly lower. **Chinese authorities took additional steps to support the yuan.** The PBOC will impose reserve requirements ratios on yuan deposits held on the on-shore market by foreign financial institutions. The measure will de facto absorb liquidity and support the yuan. The PBOC fixed the yuan slightly stronger against the dollar this morning. (6.5790). The CNH rebounded to the USD/CNH 6.5830 area. Oil extends its decline with Brent trading close to \$28 p/b. The Canadian dollar touched another multi-year low against the dollar. The impact on the Aussie and the Kiwi dollar is moderate. The major USD cross rates trade little changed from Friday's close. EUR/USD is changing hands in the 1.09 area. USD/JPY trades in the 117 area. Liquidity is probably limited as US markets are closed today.

Today, there are no eco data in Europa while US markets are closed (Martin Luther king day). So, trading will develop in thin market conditions with oil the key driver of intraday trading.

Of late, the reaction in EUR/USD remained very limited compared to the big turmoil on other markets. On Friday, the pair jumped temporary higher as the US eco data disappointed and as interest rate differentials between Germany and the US declined substantially. However, at the end of the day, the moves were again limited and the pair remained within established ranges. We assume that this remarkable range trading pattern will continue today. USD/JPY remains more vulnerable to the global negative risk sentiment. However, with Asian equity markets doing not that bad given the decline in the US on Friday, we assume that trading in this cross will also be technical in nature.



EUR/USD holding within established range despite poor US data



USD/JPY: retesting the recent lows on poor US data

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 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. This level was left intact even despite poor US eco data on Friday. 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 .

R2	0,7755	-1d
R1	0,7715	
EUR/GBP	0,7621	0,0060
S1	0,7555	
S2	0,7313	

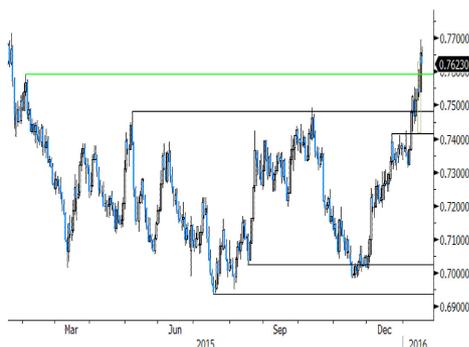
Sterling nosedives on global sentiment and oil

The post-BoE relief for sterling was very short-lived. A negative global risk sentiment and, in particular another downleg in the oil price, sent sterling a new tailspin. Later in the session, the US eco data weighed on sterling too. This was of course in the first place the case for EUR/GBP, but cable also broke below the recent lows as the US equity sell-off accelerated. The pair touched the lowest level since early 2009 and closed the session at 1.4258 (from 1.4413). EUR/GBP jumped close to the 0.77 big figure and ended the session at 0.7656.

Overnight, UK Rightmove house prices were decent at 0.5% M/M and 6.5% Y/Y. Sterling rebounds slightly this morning, but this is probably a correction on Friday's sharp losses, rather than a reaction to the UK data.

Later today, there are no important eco data in the UK. Sterling currently tries to move away from Friday's lows against the euro and the dollar as the setback on Friday was a bit overdone. However, with oil still under pressure, a sustained rebound of the UK currency looks far from evident. So, we expect a modest technical rebound at best.

In a longer term perspective, we keep the view that uncertainty on Brexit and global sentiment are 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 0.7715** . 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: nearing the 0.77 big figure



Cable set new multi-year low

Calendar

Monday, 18 January		Consensus	Previous
US			
CLOSED	US markets are CLOSED due to Martin L. Kings day.		
Japan			
05:30	Industrial Production MoM/YoY (Nov F)	A: -0.9%/1.7%	-1.0%/1.6%
05:30	Capacity Utilization MoM (Nov)	A: -0.1%	1.3%
05:30	Tertiary Industry Index MoM (Nov)	A: -0.8%	0.9%
06:30	Nationwide Dept Sales YoY (Dec)	A: 0.1%	-2.7%
06:30	Tokyo Dept Store Sales YoY (Dec)	A: 2.2%	0.2%
UK			
01:01	Rightmove House Prices MoM/YoY (Jan)	A: 0.5%/6.5%	-1.1%/7.4%
Italy			
10:00	Trade Balance Total (Nov)	--	4812m
10:00	Trade Balance EU (Nov)	--	1291m
Events			
	OPEC – monthly oil market report		
02:30	China - China December Property Prices		
09:30	Sweden - Riksbank Publishes Minutes from Extraordinary Meeting Jan. 4		
11:00	Belgium - OLO auction CANCELLED		
19:30	UK - Bank of England Official Gertjan Vlieghe Speaks in London		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,04	-0,04	US	0,85	-0,03	DOW	15988,08
DE	0,48	-0,02	DE	-0,39	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,86	-0,01	BE	-0,32	0,02	NIKKEI	16956,16955,57
UK	1,66	-0,08	UK	0,41	-0,08	DAX	9545,27,9545,27
JP	0,21	-0,02	JP	-0,02	0,00	DJ euro-50	2952,2952,48

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	Eonia EUR	-0,239	0,001
3y	-0,020	1,074	0,961	Euribor-1	-0,22	Libor-1 USD	0,51	0,51
5y	0,230	1,350	1,220	Euribor-3	-0,14	Libor-3 USD	0,59	0,59
10y	0,858	1,859	1,673	Euribor-6	-0,05	Libor-6 USD	0,75	0,75

Currencies	-1d		Currencies	-1d		Commoditie	CRB	GOLD	BRENT
EUR/USD	1,0888	0,0000	EUR/JPY	127,65	-0,51		163,1224	1090	28,45
USD/JPY	117,235	-0,48	EUR/GBP	0,7621	0,0060	-1d	0,73	7,18	-1,89
GBP/USD	1,4282	-0,0116	EUR/CHF	1,0942	0,0011				
AUD/USD	0,6894	-0,0035	EUR/SEK	9,3585	0,07				
USD/CAD	1,4537	0,0072	EUR/NOK	9,6572	0,08				

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