



## Sunrise

Thursday, 19 November 2015

### Fed sends clear message

Various Fed governors spoke hawkish yesterday, suggesting that a lift-off in December is now almost unavoidable. The October FOMC Minutes only confirm that state of mind inside the FOMC. However, bonds and the dollar barely reacted on the Minutes suggesting it is almost priced in. Today, a sideways trading session?

### Dollar rally to slow?

Yesterday, the dollar hardly profited from Fed comments 'confirming' the intention of a December rate hike. Strong equities didn't help either. A lot of good news for the dollar is apparently discounted. Today, we keep a close eye on the ECB minutes. Will calls for a deposit rate cut continue to weigh on the euro or is the dollar ripe for a correction?

### 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 trading session with small losses. **US equities** made an impressive rally both before and after the Minutes. The S&P closed with gains of 1.6%. Overnight, **Asian equities** are trading nicely in the green, continuing on the US sentiment.
- As widely expected, **the Bank of Japan maintained its current pace of monetary stimulus** of purchasing an annual 80 trillion yen of government bonds and other assets. The BoJ acknowledged that **inflation will remain around 0% due to low oil prices rather than weak demand**.
- **The Chinese business sentiment continues to decline** as the MNI China Business Indicator fell 10.3 this month to 49.9, below the 50 boom/bust from 55.6.
- **The Federal Reserve's Minutes confirm that a December lift-off remains very likely. The markets didn't react a lot**, as it is already largely discounted.
- Commodities took a break yesterday, as precious metals inched higher, with **Gold up 0.7%, Platinum up 1.5% and Palladium up 1.1%**. Oil prices also recovered a bit, with **Brent Crude trading at 44.5\$/barrel**.
- Today the **eco-calendar** contains few data with only the **weekly jobless claims** and the **Philly Fed business outlook index of interest**. **ECB's Coeure and Praet** and **Fed Lockhart & Fischer** speak, while the **ECB publish the Minutes**.

# Rates

## Fed sends clear message

	US yield	-1d
2	0,8799	0,0205
5	1,6824	0,0235
10	2,264	0,0000
30	3,0255	-0,0208

**US Treasuries underperform Bunds on hawkish Fed talk.**

**Absence of sharp reaction on Minutes suggests lift-off is priced in.**

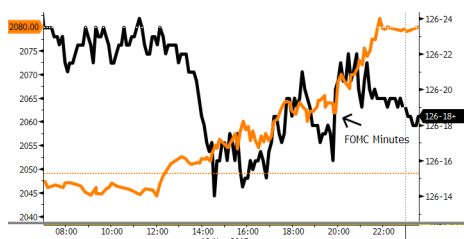
	DE yield	-1d
2	-0,3629	0,0100
5	-0,1268	0,0124
10	0,5083	-0,0027
30	1,3367	-0,0413

### Global core bonds lost modest ground yesterday with US Treasuries

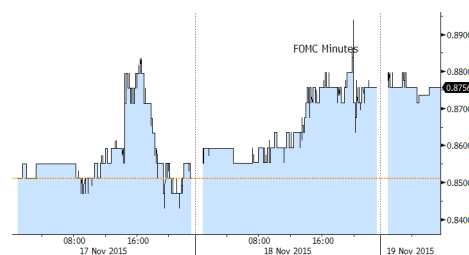
**underperforming German Bunds on hawkish Fed talk.** Risk-on sentiment on the equity markets weighed slightly on core bonds as well. At the end of the day, US yields increased 0.7 bps (10-yr) to 3 bps (5-yr) higher. The 30-yr bond yield fell 1.2 bps. Changes on the German yield curve ranged between -4.5 bps (30-yr) and +0.5 bps (2-yr). On intra-EMU bond markets, 10-yr yield spreads versus Germany were about 2 bps lower for the peripherals with Portugal outperforming (-8 bps) and Greece underperforming (+7 bps).

### After European closure, the FOMC Minutes didn't bring very important new elements to the fore.

The tone of the economic assessment was positive while most participants saw downside risks from economic and financial developments abroad as diminished. A few participants didn't agree. Some remained concerned about too low inflation. Regarding monetary policy, some thought that conditions for beginning the policy normalization process had already been met. Most participants anticipated that these conditions could well be met by the time of the next meeting, but their opinion would depend in the incoming information (which was we think sufficiently positive to convince them in December). Some others thought it unlikely that the conditions for a lift-off would be met in December. **Participants generally anticipated that inflation would rise gradually to 2% as temporary factors dissipated and labour market tightening continued.** Participants generally agreed that it would be appropriate to remove policy accommodation gradually and that the path of policy would be more important than the timing of the lift-off. The **Staff presented an interesting briefing about the neutral real interest rate.** They concluded that it had fallen below zero in the crisis and recovered only partially to be close to zero currently. Regarding its longer-run trend, they thought the longer run natural rate would likely remain low relative to estimates before the crisis if trend in productivity would not pick up and if demographic projections for slow growth in working age population are borne out. **Concluding, given the tepid market reaction on the Minutes, a Fed lift-off looks discounted for December. The Fed will go slow and the long-run natural real rate will be rather low. It will be interesting to see how this will all translate in the new dot plot.**



*T-Note future (black) & S&P future (orange): Equities had a strong run that wasn't interrupted by publication Minutes. T-Note future recouped part of initial losses.*



*US 2-yr yield: (intraday 3 days): Little reaction on FOMC Minutes as December lift-off is priced in*

R2	160,62	-1d
R1	158,6	
<b>BUND</b>	<b>157,77</b>	0,1300
S1	156,64	
S2	154,81	

## Spain and France tap market

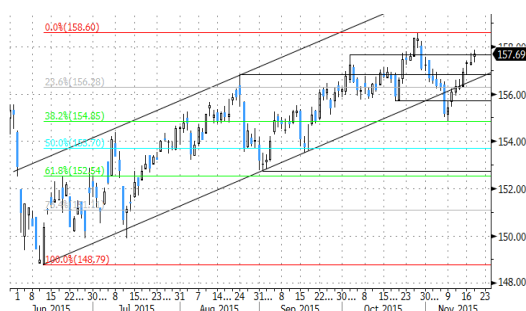
The **French Treasury** sells the on the run 5-yr OAT (0.25% Nov2020) and two off the run OAT's (4.25% Oct2018 & 2.25% Oct2022) for a combined €7-8B. On the French curve, the Oct2022 OAT trades with a discount compared to surrounding bonds. There was no pre-auction cheapening. French auctions tend to go well and we don't expect any difficulties today neither. Additionally, the French Treasury tries to raise €1-1.5B with inflation-linked bonds. The **Spanish debt agency** sells the on the run 3-yr Bono (0.25% Apr2018), the on the run 5-yr Bono (1.15% Jul2020) and the off the run Obligacion (5.4% Jan2023) for a total amount of up to €4B. The bonds didn't cheapen going into the auction and trade relatively normal on the Spanish curve. Overall we expect auctions to go well given reigning positive sentiment towards the soft periphery and the prospect of additional ECB buying.

## Today: ECB Minutes positive for Bund?

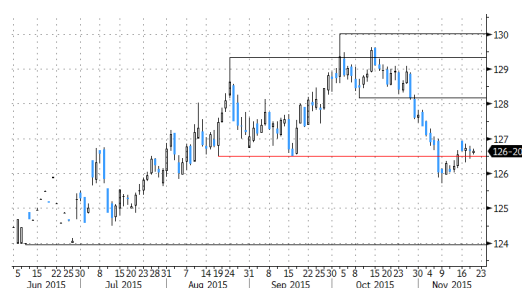
**Overnight**, most Asian stock markets trade more than 1% higher in line with WS's performance yesterday. US stock markets closed 1.5% higher. The FOMC Minutes confirms that the Fed is ready for a December lift-off, but highlight the gradual pace afterwards. Monetary policy will be accommodative for some time. The US Note future trades marginally higher, but we don't draw conclusions for the opening of the Bund.

**Today's eco calendar contains US weekly claims (270k from 276k expected) and Philly Fed Business Outlook (-0.3 from -4.5 expected). We side with consensus** Given that a December rate hike is a quasi-certainty, we don't think that these data will influence trading. **In EMU, the Minutes of the previous meeting will be published.** These will be very interesting given that Draghi said that a deposit rate cut was discussed at that meeting. How many participants supported the idea? The closer the call, the better the chance that the ECB might effectively cut in December. The same rhetoric goes on extending the QE-programme. Soft Minutes could be positive for the Bund today.

Technically, both **the US T-Note and the Bund regained lost support levels.** The Dec T-note future is back above key 126-16 support (US 10-yr yield below 2.3% resistance). Nevertheless, **we hold our sell-on-upticks for US Treasuries. The Bund** is back in the uptrend channel. **We remain more neutral (range trading between 154.85 and 158.60) given the elevated**



German Bund: back in upward trend channel



US Note future: short term consolidation but sell on upticks anticipating monetary tightening cycle

# Currencies

*Dollar rally slows even as equities continue to rally and as the Fed is ready for a December rate hike*

R2	1,083	-1d
R1	1,0759	
EUR/USD	1,06945	0,0048
S1	1,0521	
S2	1,0458	

*Asian equities remain will bid, but dollar fails to profit*

*There are only second tier eco data on the agenda today*

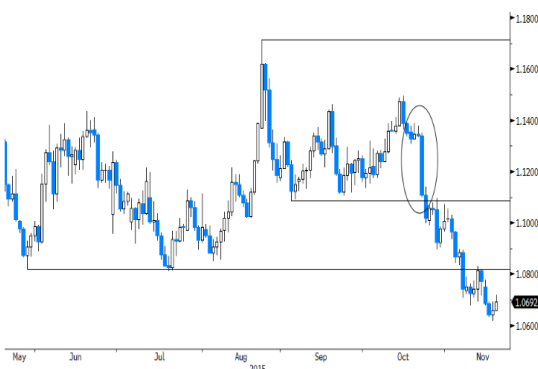
*Central Bank speakers and ECB minutes in focus.*

## Has USD discounted a December rate hike?

On Wednesday, several Fed speakers talked in favour of a December rate hike, but it didn't help the dollar much. The Fed Minutes brought a similar message and US equities had another strong session. However, it couldn't help the dollar much, probably as the Fed reiterated that the rate hike cycle after the December lift-off will be gradual. EUR/USD closed that session at 1.0660 from 1.0642. USD/JPY ended the day at 123.64 from 123.45.

Overnight, most Asian equities join the rebound from the US yesterday evening. The gains are significant (around 1%), but still slightly disappointing given the strong rally in the US. The BOJ as expected left its policy unchanged even as the Japanese economy slipped back into recession in the third quarter. The bank talked slightly softer on inflation, but it wasn't enough to change the Bank's policy assessment. Japanese exports (-2.1% Y/Y) and imports (-13.4% Y/Y) were rather poor. Department store sales were fairly strong. USD/JPY slipped off yesterday's highs this morning. The pair dropped from the 123.60 area and currently trades in the 123.25 area. However, this move is probably in the first place USD weakness rather than JPY strength. The dollar is also under moderate pressure against the euro. EUR/USD tries to regain the 1.07 mark.

Later today, there are again only second tier eco data in Europe. In the US, the jobless claims and the Philly Fed Business outlook have some more market moving potential. However, they are no game changers. This morning, ECB Coeure, Weidmann and Praet speak. Coeure and especially Praet are supporters of an aggressive easing. Weidman is no supporter of QE, but we have the impression that his view has no big impact within the ECB. We also keep a close eye on the ECB account (minutes) of the Oct 22 policy meeting. We especially look out how much support there is for an aggressive deposit rate cut. If this is the case, it would be a negative for the euro. Later in the session, Fed's Fisher and Lockhart speak. Regarding the Fed, we assume that markets have discounted a December rate hike. The focus turns to the pace of tightening further down the road. For now, the Fed indicates that this process will be very gradual and markets are keen to embrace this scenario.



EUR/USD: decline to slow?



USD/JPY tests 123.60 area, but no follow-through gains

*USD has broken beyond key resistance levels. Cycle lows/highs in EUR/USD and USD/JPY at respectively 1.0458 and 125.86 come on the horizon.*

R2	0,725	-1d
R1	0,7197	
EUR/GBP	<b>0,7001</b>	0,0000
S1	0,6984	
S2	0,6936	

**In a day-to-day perspective**, we have the impression that enough good interest rate news is discounted for the dollar. At the same time, anticipation on aggressive ECB easing will remain a negative for the euro (cf supra ECB minutes). A slowdown/ST consolidation of the USD rally might be on the cards. Even so, we expect any USD correction to remain limited/short-lived ahead of the ECB and the Fed December policy decisions. The 1.0809/30 area is first resistance in case of a short-term correction move.

**In a broader perspective, short term interest rate differentials widened in favour of the dollar.** EUR/USD dropped below the 1.0809 support and reached the targets of the short-term multiple top formation (neckline 1.1087/1.1105) in the low 1.0715 rea. With policy divergence between the Fed and the ECB still in place, we don't row against the USD uptrend. However, quite some news (interest rate) is already discounted. So, the pace of the USD rally may slow. The post ECB QE lows in EUR/USD (1.0521/1.0458 area) are obvious targets on the charts. We maintain a EUR/USD sell-on upticks strategy for a retest of the cycle lows. For USD/JPY, the cycle tops in the 125.28/86 area are coming on the radar, but a test/break looks difficult short-term.

### EUR/GBP holding near the 0.70 level

Yesterday, there were no eco data in the UK. BoE Broadbent warned that investors shouldn't focus too much on the BoE's inflation forecasts to make an assessment on the timing of a first BoE rate hike. Instead they should keep an eye at broader factors such as growth. He also said that the yield curves are currently very flat, leaving the timing of the implied first rate hike vulnerable to sudden moves. **These comments were slightly hawkish.** Cable spiked temporary to the mid 1.52 area, but returned part of the gains later in the session. The pair closed the session at 1.5237 (from 1.5213). The Broadbent comments also triggered some temporary 'nervousness' in EUR/GBP. Even so, the pair held a tight sideways range in the lower 0.70 area and even closed the session at 0.6996 almost unchanged from the previous session.

**Overnight**, USD 'weakness' is supporting sterling more than the euro. Cable rebounded to the high 1.52 area. EUR/GBP holds near 0.70. **Later today**, the UK retail sales and the CBI trend orders will be published. Retail sales are expected to decline after spectacular growth in September. Retail sales are expected to decline 0.5% M/M to be up 4.5% Y/Y. CBI orders are expected to improve from -18 to -10. Of late, the reaction of sterling to UK eco data was often modest as the BoE is in wait-and-see modus on the timing of a first rate. It is far from sure that today's data will change this. This morning's price action suggests that cable might outperform EUR/USD in case of a USD correction. This should keep the topside in EUR/GBP well protected.

**Looking at the broader picture**, the soft stance of the ECB pushed EUR/GBP again lower in the longstanding sideways range. The pair tested the 0.7196 support and the level was 'really' broken after the FOMC announcement. A retest occurred after a soft BoE inflation report, but the test was rejected. **We maintain a sell-on-upticks approach for EUR/GBP as euro weakness prevail**

# Calendar

Thursday, 19 November		Consensus	Previous
<b>US</b>			
14:30	Initial Jobless Claims	270k	276k
14:30	Continuing Claims	2170k	2174k
14:30	Philadelphia Fed Business Outlook (Nov)	-0.8	-4.5
16:00	Leading Index (Oct)	0.5%	-0.2%
<b>Japan</b>			
	BOJ Annual Rise in Monetary Base	A: ¥80t	¥80t
00:50	Trade Balance (Oct)	A: ¥111.5b	-¥114.5b
00:50	Trade Balance Adjusted (Oct)	A: -¥202.3b	-¥355.7b
00:50	Exports YoY (Oct)	A: -2.1	0.6
00:50	Imports YoY (Oct)	A: -13.4	-11.1
05:30	All Industry Activity Index MoM (Sep)	A: -0.2%	-0.2%
06:30	Nationwide Dept Sales YoY (Oct)	A: 4.2%	1.8%
06:30	Tokyo Dept Store Sales YoY (Oct)	A: 7.4%	4.9%
07:00	Machine Tool Orders YoY (Oct F)	A: -22.9%	-23.1%
<b>UK</b>			
10:30	Retail Sales Ex Auto Fuel MoM/YoY (Oct)	-0.6%/3.9%	1.7%/5.9%
10:30	Retail Sales Inc Auto Fuel MoM/YoY (Oct)	-0.5%/4.5%	1.9%/6.5%
12:00	CBI Trends Total Orders (Nov)	-10	-18
12:00	CBI Trends Selling Prices (Nov)	-6	-7
<b>EMU</b>			
10:00	ECB Current Account SA (Sep)	--	17.7b
10:00	Current Account NSA (Sep)	--	13.7b
<b>Italy</b>			
10:30	Current Account Balance (Sep)	--	1389m
<b>Sweden</b>			
09:30	Total No. of Employees YoY (3Q)	--	1.8%
09:30	Unemployment Rate (Oct)	6.7%	6.7%
<b>Events</b>			
04:00	Japan - Bank of Japan Monetary Policy Statement		
09:00	EMU - ECB's Coeure & Weidmann speak in Frankfurt		
09:30	EMU - ECB's Peter Praet Speaks at Europe Finance Week		
10:30	Spain - Auctions Bonos/Obligaciones		
10:50	France - Auctions BTANs & OATi		
13:30	EMU - ECB account of the monetary policy meeting		
13:00	Sweden - Riksbank's Ingves Gives Speech		
18:30	SNB's Andrea Maechler Speaks in Geneva		
18:30	US - Fed's Lockhart Speaks on U.S. Economy in Atlanta		
19:00	US - Holds 10-year TIPS auction		
22:45	US - Fed Vice Chair Fischer gives remarks on emerging asia		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,26	0,00	US	0,88	0,02	DOW	17737 17737,16
DE	0,51	0,00	DE	-0,36	0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,80	-0,03	BE	-0,29	0,00	NIKKEI	19860 19859,81
UK	1,92	-0,04	UK	0,62	-0,01	DAX	10959,95 10959,95
JP	0,30	0,00	JP	-0,01	-0,01	DJ euro-50	3432 3431,92

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	Eonia EUR	-0,129	0,002
3y	-0,022	1,222	1,193	Euribor-1	-0,14	Libor-1 USD	0,51	0,51
5y	0,218	1,596	1,481	Euribor-3	-0,09	Libor-3 USD	0,57	0,57
10y	0,875	2,103	1,891	Euribor-6	-0,02	Libor-6 USD	0,73	0,73

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,06945	0,0048	EUR/JPY	131,82	0,62		183,713	1077,4	44,52
USD/JPY	123,275	0,02	EUR/GBP	0,7001	0,0000	-1d	-1,70	6,38	0,52
GBP/USD	1,5268	0,0070	EUR/CHF	1,0871	0,0064				
AUD/USD	0,7157	0,0056	EUR/SEK	9,3015	-0,01				
USD/CAD	1,3264	-0,0048	EUR/NOK	9,2465	0,00				

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