



## Sunrise

Friday, 26 February 2016

### Rates: Core bonds still moving higher despite stronger oil and equities

Global core bonds advanced further, also as equities and oil jumped higher in the US session. The German Bund stands near the recent high and the German 10-yr yield creeps towards all-time lows. Will the G20 change the bullish bond sentiment or at least trigger profit taking today?

### Currencies: sterling decline slows

Yesterday, the dollar showed again a mixed picture. The US currency rebounded further against the yen, but stabilized against the euro. Today, there are plenty of eco data on the agenda, but it is far from sure that they will be able to give clear guidance for USD trading. The Brexit driven decline of sterling slowed. The G20 meeting is a wildcard for currency trading.

### 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 rose for a second straight session yesterday**, with both the Dow and S&P gaining more than 1% led by financials. This morning, most **Asian shares trade in positive territory** but the gains remain contained.
- **China's central bank governor tried to reassure markets his country has still some monetary policy space and multiple instruments to address possible downside risks**, but added that there is no basis for persistent renminbi deterioration.
- **The US Federal Reserve should follow the broad strategy of gradual policy tightening** without predicting exactly how many rate hikes are necessary, because that will be based on inflation and other economic data, Fed's Williams said yesterday.
- **Brent crude oil prices jumped back above \$35/barrel yesterday evening** after Venezuela's oil minister said his country would meet with other top global oil producers to discuss efforts to stabilize the market. The WTI jumped above \$33/barrel.
- **Both Japan's headline and core inflation were flat in January, in line with market expectations**, but highlighting the difficult task BOJ policymakers face in attempting to lift the country out of deflation. The leading Tokyo indicators were slightly higher than expected.
- Today, the **eco calendar heats up** with the first estimate of German HICP inflation for February, European Commission's economic confidence, the second estimate of US Q4 GDP, US personal income and spending and the final reading of US University of Michigan consumer confidence for February. **Attention will also go out to the start of the G20 meeting in Shanghai.**

# Rates

## Babbling on...but eventually finishing higher

Core bonds slightly higher despite higher oil & equities

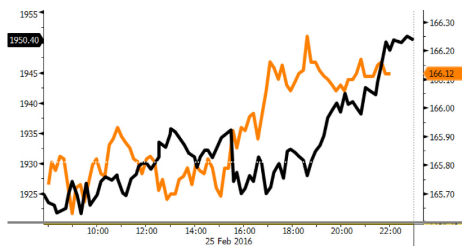
EMU inflation expectations set new low

Portugal outperforms

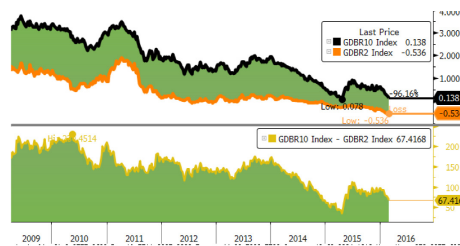
Yesterday, global core bonds traded in a narrow sideways range ignoring equity strength, mostly stronger eco data and central bank talk. EMU M3 money supply and lending revived in January and **CPI inflation was revised lower** to 0.3% Y/Y from 0.4% Y/Y. Forward-looking inflation measures paint a bleak picture as well. **ECB Draghi often mentions the 5-yr/5-yr inflation forward swap**. This gauge dropped below 1.4%, to the lowest level on record and warrants additional ECB easing in a fortnight. **During US dealings**, core bonds initially babbled on despite **more equity strength**. **Towards the end of the session, they moved slightly higher**. Weekly jobless claims nearly matched expectations while **durable goods orders printed strong**. **Fed governors Lockhart, Bullard and Williams** brought little new info (see Sunset report) while the 7-yr Note auction was delayed for technical reasons. In a daily perspective, German yields fell between -1.4 bps (2-yr) and 2.5 bps (7yr). Changes on the US yield curve varied between -2.7 bps (2-yr) and -2.5 bps (30-yr) (some benchmark changes intervened). **On intra-EMU bond markets**, 10-yr yield spreads versus Germany narrowed marginally with the exception of **Portugal** (-12bps). Moody's said that the approval of Portugal's budget is positive for the country's credit rating. **Ireland** (-6 bps) performed strong as well ahead of today's elections.

	USyield	-1d
2	0,7342	-0,0158
5	1,1766	-0,0178
10	1,7227	-0,0068
30	2,5964	0,0046

	DEyield	-1d
2	-0,5320	-0,0130
5	-0,3560	-0,0220
10	0,1340	-0,0430
30	0,8332	-0,0047



Bund (orange) and S&P future (black) (intraday): Rather dull session, but bonds finish higher despite higher equities



German 2yr/10yr yield spread (lower panel): Again lower suggesting eco slowdown

US-German

Negative risks German CPI and EMU economic confidence

Downside risks US consumer confidence and downward revision US Q4 GDP

Upward risks US PCE

## Busy calendar with several market moving items

The **preliminary estimate of German HICP inflation** is expected to show a 0.6% M/M increase, but the annual reading is expected to slow from 0.3% Y/Y to 0.0% Y/Y in February. The winter sales usually weigh on inflation in January, but it is mostly followed by a partial reversal in February. We believe that **a negative German inflation reading is not excluded**. Also HICP data from Spain, France and Belgium will be interesting. After poor PMI's and a weak IFO, also **European Commission's economic confidence** is expected to have weakened in February, from 105.0 to 104.3. After a disappointing consumer confidence and weak PMI's and IFO, **we see downside risks** for European Commission's consumer confidence too. In the US, **Q4 GDP** is expected to be revised further down to an annualized 0.4% Q/Q from 0.7% Q/Q. **University of Michigan consumer confidence** is expected to be revised slightly up, from 90.7 to 91.0, but still down from the January figure of 92.0. We however **see downside risks**. Finally, **personal income and spending** are expected to have picked up in January, by respectively 0.4% M/M and 0.3% M/M. The **PCE deflators** will be interesting too. PCE is expected to pick up from 0.6% Y/Y to 1.1% Y/Y in January, while monthly

figures are forecast flat. The core PCE is forecast to increase further from 1.4% Y/Y to 1.5% Y/Y. **The risks, if any, are for an upward surprise in the PCE data.**

R2	167	-1d
R1	166,25	
<b>BUND</b>	<b>166,12</b>	0,4600
S1	163,25	
S2	162,86	

### New Italian 10-yr BTP and delayed 7-yr Note auction

**The Italian debt agency concludes this week's scheduled supply by tapping the on the run 5-yr BTP (€1.75-2.25B 0.65% Nov2020) and launching a new 10-yr BTP (€3.5-4B 1.6% Jun2026).** On the grey market, the new BTP trades 2.6 bps more expensive than the previous 10-yr benchmark (2% Dec2025) and 14.7 bps more expensive than the on the run 10-yr Spanish Obligacion (1.95% Apr2026). The former is quite surprising as DMO's had to lure investors into buying new debt with relatively large new issue premiums so far this year. Current pricing on the grey market doesn't seem very attractive on the Italian curve or versus Spain. The Nov2020 BTP didn't cheapen in the run-up to the auction in ASW spread terms, but trades normal on the curve. **The US Treasury delayed the final auction of its end-of-month refinancing operation because of technical issues.** The \$28B 7-yr Note auction will take place today instead.

### Today: Bund vulnerable to ST profit taking?

**Overnight**, Asian equity markets trade marginally higher with China slightly outperforming (+1.5%). Risk sentiment is less positive than in Europe and the US yesterday though. Oil prices and the US Note future are stable overnight, suggesting a neutral opening for the Bund.

**Today's eco calendar heats up. Risks for most eco data are on the downside of expectations apart from the US PCE deflator. Fed speakers include Powell, Brainard (dove) and Williams (neutral/hawk).** We believe that eco data and Fed speakers won't impact trading in one specific direction. They could trigger some volatility though core bond markets are mainly sensitive to oil and equity markets of late. End-of-month extension buying is technically positive element ahead of the weekend. **The Bund outperformed the US Note future this week and might be more vulnerable to a short term profit taking move after yesterday's failed test of the contract high.** The G-20 meeting is expected to focus on fiscal easing.

**Technically**, the US Note future's tried to regain the uptrendline, even as it remains near the highs, suggesting still some momentum. Nevertheless, we expect sideways trading ahead, roughly between 129 and 133. The picture for the Bund is more or less similar. The upper bound of the short-term range (163.25-166.25) was tested twice the past days, making the contract vulnerable to ST profit taking. Medium term, the German 10-yr yield is only 10 bps away from the all-time low (0.05%). A test in the run-up to the ECB-meeting is possible.



German Bund: Two failed tests of contract high. ST profit taking ahead of the weekend?



US Note future: high volatility over the past sessions mainly driven by equity markets and oil prices

# Currencies

*Dollar shows different intraday dynamics against the euro and the yen*

*Eco calendar heats up*

*USD still looking for a consistent trading pattern*

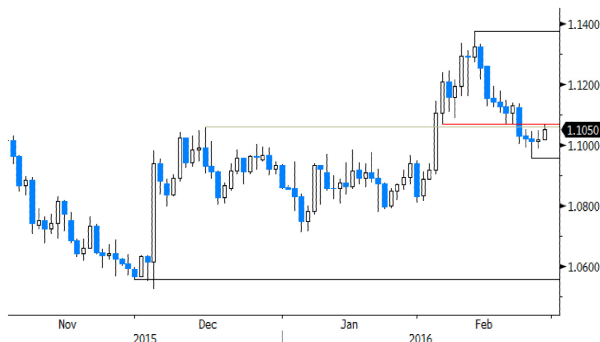
R2	1,1376	-1d
R1	1,1139	
EUR/USD	<b>1,105</b>	0,0019
S1	1,081	
S2	1,0711	

## Dollar still shows mixed picture

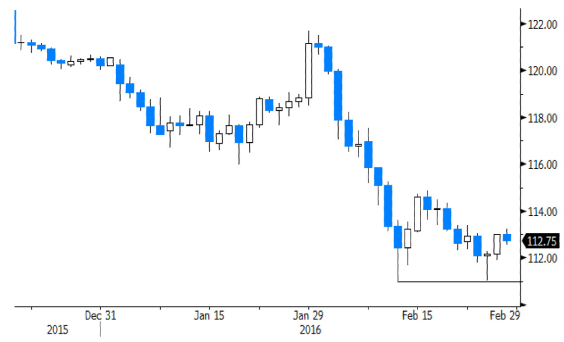
On Thursday, USD/JPY rebounded off the recent low supported by a positive equity market sentiment. Decent US data were also a slightly positive for the dollar. The picture for EUR/USD was less clear. The pair was captured in a sideways range between 1.0990 and 1.1045. The pair was off Wednesday's correction low, but gave no clear directional signal yet. EUR/USD closed the session at 1.1018, virtually unchanged. USD/JPY finished at 113 (from 112.08).

This morning, Asian equities show modest gains with intraday highs early in the session. Oil prices hold near the recent highs (\$35p/b). PBOC Governor Zhou repeated that the bank has still tools to ease monetary policy and saw no reason for a yuan devaluation. Nevertheless, Chinese equities underperform. The rebound in oil yesterday keeps the Aussie and the Canadian dollar near the recent highs. USD/JPY drifts slightly lower, as equities return some of the initial gains, trading in the 112.65 area. EUR/USD is well bid trading in the 1.1060 area.

Today, the **eco calendar is well filled**. German HICP inflation is expected to increase 0.6% M/M, but the annual reading is expected to slow from 0.3% Y/Y to 0.0% Y/Y. A **negative reading (Y/Y) is possible**. After poor PMI's and a weak IFO, also **European Commission's economic confidence** is expected to have weakened in February. **We see downside risks**. So, the EMU data might be slightly negative for the euro. In the US, **Q4 GDP** is expected to be revised further down to an annualized 0.4% Q/Q. Finally, **personal income and spending** are expected to have picked up in January. The **PCE deflators** will be key. The PCE deflator is expected to pick up from 0.6% Y/Y to 1.1% Y/Y. The core PCE one is forecast to increase from 1.4% Y/Y to 1.5% Y/Y. **The risks, if any, are for an upward surprise in the PCE deflator data. So, the US data might be mixed for the dollar. However, an upward surprise in the (core) PCE deflator might have most weight from a market point of view. Markets will also keep an eye the comments from the G20 meeting.**



EUR/USD decline slows, but no clear trend yet.



USD/JPY extends rebound off 111 area

Of late the dollar showed a diffuse price pattern. USD/JPY rebounded this week after retesting the 111 area. At the same time, the decline of EUR/USD also bottomed out.. The euro initially didn't profit from negative news and

rebounded Wednesday and Thursday even as sentiment was risk-on. **The picture remains inconclusive and we see no clear driver for now.**

**From a technical point of view**, the correction high stands at 1.1376. Next important resistance kicks in at 1.1495. Recently, the dollar slowly fought back, but this move had no strong momentum. Monday’s decline below 1.1060 was a ST negative for EUR/USD and could have opened the way to the 1.0810/1.0711 support area. However, for now there is no follow-through price action.

**USD/JPY dropped below the 115.98 pre-BOJ low.** Japanese officials warned on potential action, putting a short-term floor under the pair. Even so, it remains vulnerable. **Any rally might soon run into resistance (114.87 recent high). The 115.98 January low is a next resistance.**

### Sterling decline continues

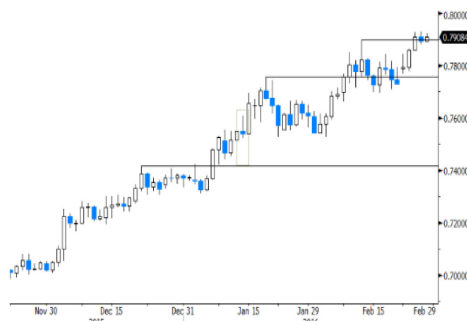
**On Thursday, sterling’s Brexit-sell-off slowed.** The global context was a bit more sterling friendly. Oil stabilized and equities rebounded. **Midmorning, UK Q4 GDP growth was confirmed at 0.5% Q/Q and 1.9% Y/Y but the details were a bit disappointing.** However, the ‘negative’ composition of growth this time didn’t hurt sterling. The UK currency stabilized against the euro and gained some ground against the dollar. Cable rebounded to just below 1.40, but returned some of the early gains as the dollar rallied later in the session. Cable closed the session at 1.3962 (from 1.3927). EUR/GBP finished at 0.7892 (from 0.7909). **Some short-term GBP shorts were apparently inclined to take some ships off the table.**

**This morning**, UK GfK consumer confidence declined more than expected from 4 to 0 (3 was expected). We didn’t see a reaction of sterling. Cable and EUR/GBP were driven by the swings in the dollar and the euro . There are no other important eco data on the calendar in the UK today.

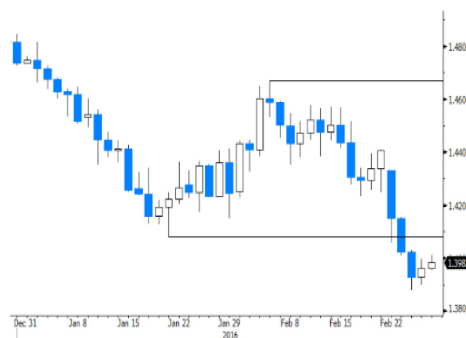
**Yesterday**, the Brexit decline of sterling slowed. Some consolidation or even a limited technical rebound might be on the cards after the recent decline. However, for now, it is much too early to call a trend reversal. Sterling didn’t succeed any meaningful rebound against the euro or the dollar yet.

The medium term technical picture of sterling against the euro remains negative as EUR/GBP broke above the 0.7493 Oct top. The pair cleared the 0.7898 resistance earlier this week. 0.8066 is the next important resistance.

R2	0,8066	-1d
R1	0,7929	
EUR/GBP	<b>0,7907</b>	-0,0006
S1	0,7695	
S2	0,7526	



EUR/GBP rally taking a breather



GBP/USD: decline slows

# Calendar

Friday, 26 February		Consensus	Previous
<b>US</b>			
14:30	<b>GDP Annualized QoQ (4Q S)</b>	0.4%	0.7%
16:00	<b>U. of Mich. Sentiment (Feb F)</b>	91.0	90.7
16:00	Personal Income (Jan)	0.4%	0.3%
16:00	Personal Spending (Jan)	0.3%	0.0%
16:00	<b>PCE Deflator MoM / YoY (Jan)</b>	0.0%/1.1%	-0.1%/0.6%
16:00	<b>PCE Core MoM / YoY (Jan)</b>	0.2%/1.5%	0.0%/1.4%
<b>Japan</b>			
00:30	Natl CPI YoY (Jan)	0.0%	0.2%
06:00	Natl CPI Ex Fresh Food, Energy YoY (Jan)	1.2%	1.3%
00:30	Tokyo CPI YoY (Feb)	-0.3%	-0.3%
00:30	Tokyo CPI Ex Food, Energy YoY (Feb)	0.4%	0.4%
<b>UK</b>			
01:05	GfK Consumer Confidence (Feb)	3	4
<b>EMU</b>			
11:00	<b>Economic Confidence (Feb)</b>	104.3	105.0
11:00	Business Climate Indicator (Feb)	0.27	0.29
11:00	Industrial Confidence (Feb)	-3.6	-3.2
11:00	Services Confidence (Feb)	11.4	11.6
11:00	Consumer Confidence (Feb F)	--	--
<b>Germany</b>			
	CPI Baden Wuerttemberg MoM / YoY (Feb)	--/--	-0.9%/0.3%
09:00	CPI Saxony MoM / YoY (Feb)	--/--	-0.9%/0.4%
10:00	CPI Brandenburg MoM / YoY (Feb)	--/--	-0.8%/0.3%
10:00	CPI Hesse MoM / YoY (Feb)	--/--	-0.9%/0.3%
10:00	CPI Bavaria MoM / YoY (Feb)	--/--	-0.8%/0.7%
10:30	CPI North Rhine Westphalia MoM / YoY (Feb)	--/--	-0.8%/0.6%
14:00	CPI MoM / YoY (Feb P)	0.5%/0.1%	-0.8%/0.5%
14:00	<b>CPI EU Harmonized MoM / YoY (Feb P)</b>	0.6%/0.0%	--/--
<b>France</b>			
08:45	CPI EU Harmonized MoM / YoY (Feb P)	0.4%/0.1%	-1.1%/0.3%
08:45	GDP QoQ / YoY (4Q P)	0.2%/1.3%	0.2%/1.3%
08:45	Consumer Spending MoM / YoY (Jan)	0.6%/0.3%	0.7%/0.3%
<b>Belgium</b>			
	CPI MoM / YoY (Feb)	--/--	0.11%/1.74%
<b>Norway</b>			
10:00	Unemployment Rate (Feb)	3.3%	3.4%
<b>Spain</b>			
09:00	CPI EU Harmonised MoM / YoY (Feb P)	-0.2%/-0.5%	-2.5%/-0.4%
<b>Events</b>			
	<b>Start G20 Finance Ministers and Central Bank Meeting in Shanghai</b>		
16:15	Fed's Powell Discusses Fed Communication at New York Forum		
19:30	Fed's Brainard Speaks on International Policy Synchronization		
19:30	ECB's Peter Praet Speaks on Panel in New York		
<b>Italy</b>	<b>CCTeu (€1.5-2B 0% Dec2022 CCTeu) &amp; BTP Auction (€1.75-2.25B 0.65% Nov2020, €3.5-4B 1.6% Jun2026)</b>		

# Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,72	-0,01	US	0,73	-0,02	DOW	16697,16697,29
DE	0,13	-0,04	DE	-0,53	-0,01	NASDAQ for Exch - NQI	#VALUE!
BE	0,50	-0,02	BE	-0,42	-0,04	NIKKEI	16188,16188,41
UK	1,35	-0,03	UK	0,30	-0,01	DAX	9331,48,9331,48
JP	-0,06	0,00	JP	-0,26	-0,03	DJ euro-50	2877,2877,42

						USD	td	-1d	
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,249	-0,002
3y	-0,137	0,864	0,752	Euribor-1	-0,26	0,00	Libor-1 USD	0,51	0,51
5y	0,014	1,080	0,886	Euribor-3	-0,20	0,00	Libor-3 USD	0,59	0,59
10y	0,532	1,531	1,307	Euribor-6	-0,13	0,00	Libor-6 USD	0,73	0,73

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,105	0,0019	EUR/JPY	124,58	0,86		161,4948	1238	35,18
USD/JPY	112,75	0,57	EUR/GBP	0,7907	-0,0006	-1d	1,06	1,79	1,05
GBP/USD	1,397	0,0034	EUR/CHF	1,0917	0,0018				
AUD/USD	0,7227	0,0052	EUR/SEK	9,3662	0,01				
USD/CAD	1,3532	-0,0185	EUR/NOK	9,5164	-0,04				

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