



Sunrise

Thursday, 04 February 2016

Rates: Core bonds end session mixed

Dovish Fed Dudley and weak US ISM initially turned the mild profit talking around and bull flattened the German curve bull. US Treasuries couldn't hold on to gains, as oil and equities rallied, ending with a steeper curve. Some more bond profit taking ahead of US payrolls?

Currencies: Dollar nosedives as oil rebounds

Yesterday, the dollar was sold aggressively. The move was driven by multiple factors, including soft Fed speak, a poor US ISM and rebound in the oil price. Today, the dollar might enter calmer waters ahead of the payrolls. Sterling traders keep an eye on the BoE's policy decision and the press conference after the publication of the inflation report.

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	↗

- **Both the S&P (0.5%) and Dow (1.1%) closed in positive territory yesterday**, boosted by a late-session rebound. Energy shares and materials led the rebound, supported by a higher oil price. This morning, **Asian shares trade higher too**, but Japanese ones underperform following a stronger yen.
- After Dudley, Fed's **Brainard** said in a WSJ interview that **recent developments reinforce the case for watchful waiting** as stresses in emerging markets and slow growth in developed economies could spill over to the US.
- Bank of Japan Governor **Kuroda** said this morning that **the central bank was not engaging in a currency war by adopting negative interest rates** and stressed that the move was aimed at stimulating the economy. Kuroda also added that he doesn't see retail bank deposits falling into negative territory.
- **EU President Tusk will travel to London today and meet UK Prime Minister Cameron to take stock of his reactions on the EU proposal.** According to sources, Tusk will warn that concerns come not only from Central European countries, but also that other countries in a similar situation might be tempted to seek similar solutions.
- Despite record high inventories, **crude oil prices jumped more than 8% yesterday**, supported by a weaker US dollar and new talks of an OPEC emergency meeting. The Brent closed above \$35/barrel. The weaker US dollar pushed **Gold** higher too (\$1143/ounce).
- Today, the focus will be on the **Bank of England meeting** and **Inflation Report**. ECB's Draghi, Knot, Mersch and Fed's Mester and Kaplan are scheduled to speak. The US jobless claims, factory orders and productivity data will be released and the **European Commission will release its Winter Economic Forecasts**.

Rates

Core bond markets end session mixed

German curve bull flattens and avoids profit taking as Dudley was dovish and US ISM weak

US Treasury curve bear steepen as oil/equity rally after European closure

	US yield	-1d
2	0,7301	-0,0080
5	1,2776	0,0112
10	1,8946	0,0464
30	2,7244	0,0655

	DE yield	-1d
2	-0,4850	-0,0010
5	-0,3190	-0,0049
10	0,2820	-0,0210
30	1,0275	-0,0089

Global core bonds slid slightly lower as some profit taking kicked in. Two attempts of the Bund to rally to new highs failed in the morning session, amid an uninspiring EMU eco calendar. It gave way to some mild profit taking, which was undone in early US dealings. Equities hovered up and down, but in negative territory, while oil moved higher. The US ADP employment report (205K) was decent, but near expectations, while the services PMI declined further (53.5 from 55.8) and undershot expectations by a wide margin. Dudley's dovish comments and the services PMI might have helped (overbought) core bonds lose ground. In a daily perspective, the German curve bull flattened with yield declines ranging from 1.2 bps to 4.9 bps. Later in the US session, profit taking occurred as oil rallied and equities recouped losses. The US yield curve bear steepened with yields 0.4 bps (2-yr) to 5.6 bps (30-yr) higher. On intra-EMU bond markets, 10-yr yield spread changes were limited between -2 bps and +2 bps with Greece (-9 bps) outperforming.

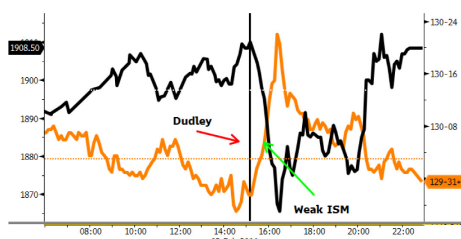
The influential NY Fed president said that financial conditions tightened sharply recently and policy makers are "acknowledging that things have happened in financial markets and in the flow of economic data that may be in the process of altering the outlook for growth and the risk to the outlook for growth going forward." While he creates some wiggle room by saying that it's a little too soon to draw firm conclusions, he clearly puts in doubt the Fed's December dot plot which still forecasted 4 additional hikes this year. He clearly runs behind the market who only discount a rate hike by the end of 2016/early 2017. Fed Brainard overnight said that "recent developments reinforce the case for watchful waiting".

Thin eco calendar, but lots of events

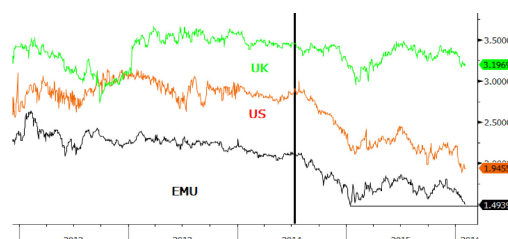
The eco calendar is thin with only the US jobless claims for which a marginal drop to 277K from 278K is expected (upside risks), US factory orders (weakness) and US Q4 productivity data (drop expected pushing unit costs up). More interesting will be central bank talk with the BoE's rate decision, the quarterly Inflation Report and a Carney press conference. Several ECB/Fed governors speak as well (see below). The ECB publishes its Economic Bulletin and the EC releases its Winter Economic Forecasts. We don't expect major changes in the GDP forecasts (respectively at 1.8% for 2016 and 1.9% for 2017), but inflation forecasts (currently at 1.0% for this year and 1.6% next) will probably be revised lower. It might give us some clues about the downward revision of the ECB staff inflation forecasts in March.

Upside risks for US initial claims

Weak US factory orders en dropping productivity growth



US Note future (orange) and S&P future (black): US Treasury gains on Dudley and ISM evaporate when oil/equities rally



Euro 5yr/5yr inflation expectations drop below 1.50%, nearing the all-time lows reached in January last year, despite recent rise in oil prices. ECB will be worried

R2	165	-1d
R1	164,22	
BUND	163,82	0,0600
S1	160,38	
S2	156,4	

Spanish and French taps should go well

Today, the French debt agency taps the on the run 10-yr OAT (1% Nov2025), the off the run 15-yr OAT (3.5% Apr2026) and the off the run 30-yr OAT (4% Oct2038) for a combined €7.5-8.5B. In the run-up to the auction, bonds cheapened in ASW spread terms, especially at the very long end. The bonds trade relatively normal on the French curve. We expect plain vanilla demand. **The Spanish Treasury taps the on the run 10-yr Obligacion (1.95% Apr2026) and off the run 30-yr Obligacion (4.2% Jan2037) for a total amount of €2.5-3.5B.** This relatively small tap should go well especially as it will be supported by a €20.6B Obligacion redemption. This week's stellar 30-yr BTP auction (€9B) suggests that sentiment towards peripheral debt remains strong following Draghi's pre-announcement of March easing. On the Spanish yield curve, especially the off the run Obligacion trades with an attractive pick-up. **The US Treasury announced that it cuts issuance of 5-yr, 7-yr, 10-yr and 30-yr debt by \$1B each.** Instead, they'll issue more shorter-term bills as investor demand is expected to grow because of reforms to money market funds.

Today: Profit taking into payrolls?

Overnight, Asian equity indices build on yesterday's WS gains. Japan underperforms on the back of yesterday's surge of the yen. The oil price trades stable around \$35.5/barrel following yesterday's \$3 increase. The US Note future trades sideways, suggesting a neutral opening for the Bund.

Today's eco calendar is thin with only weekly US jobless claims. Several central bankers could create some volatility (ECB Draghi, ECB Knot, ECB Mersch, Fed Rosengren, Fed Kaplan, Fed Mester, BoE Carney). We keep a close eye on oil prices and equity market sentiment to determine the direction of trading. A further comeback of the oil price is expected to trigger **short-term profit taking in overbought markets (both Bund and US Note future) ahead of tomorrow's payrolls.**

Technically, the German 10-yr yield fell below final support (0.42%). Weakness in equity market/oil prices and the dovish turn of global central banks (ECB, BoE, BoJ and Fed) pulled yields lower since the start of the year. **The break lower opens the way for a complete retracement towards the all-time low at 0.05%. The US 10-yr yield dropped fell below 1.9%. From a technical point of view, this also suggests more downside towards 1.64%. Longer term sentiment remains positive for core bonds.**



German Bund: dovish central banks give Bund another boost



US Note future: Time for some more neutral positioning into payrolls?

Currencies

Dollar nosedives as global equities continue to trade volatile and as oil rebounds.

R2	1,1495	-1d
R1	1,1146	
EUR/USD	1,10735	0,0152
S1	1,0778	
S2	1,065	

Asian equities rebound

Commodity currencies advance

USD stabilizes after yesterday's sell-off

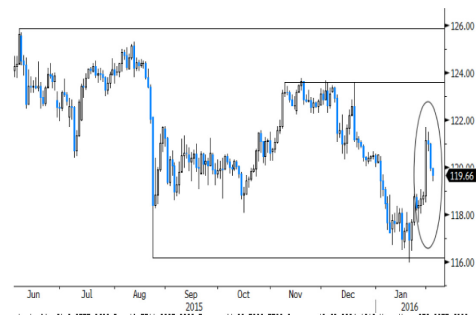
Dollar tumbles as oil rebounds

Yesterday, global markets traded volatile. At the end of the day two developments did catch the eye. First, oil rebounded sharply even as equities traded very volatile and as US oil inventories were much higher than expected. Second, the dollar was sold across the board. The US data were mixed with a good ADP labour report, but the non-manufacturing ISM missed the consensus by a wide margin. The latter reinforced the dollar sell-off and pushed EUR/USD beyond 1.10. Soft comments from Fed members Brainard and Dudley also added to the USD selling. EUR/USD closed the session at 1.1105 (from 1.0919 on Tuesday). USD/JPY dropped further and closed the day at 117.90 (from 119.97). The traded-weighted dollar lost more than 1.5%.

This morning, most Asian equities markets trade with modest gains after a positive reversal in the US yesterday. Japan underperforms as the decline in USD/JPY weighs. The PBOC fixed the yuan slightly stronger against the dollar. The CNH trades slightly weaker at USD/CNH 6.6138. With the dollar sharply lower across the board, the yuan is also trading weaker against most of its regional competitors. The commodity currencies remain well bid with the Canadian dollar trading in the USD/CAD 1.3765 area. AUD/USD has rebounded to the 0.7175 area. The dollar stabilizes against the yen (USD/JPY 117.95) and the euro (EUR/USD 1.1080) after yesterday's sell-off.



EUR/USD tests first key resistance



DXY (USD-trade-weighted) nosedives

Eco calendar is thin

The focus for dollar trading is on central bank speakers and on commodities

Today the US calendar is better filled, but without market movers. However, there are plenty of **other events on the calendar**. We keep an eye at the winter economic forecasts of the European commission. Especially, the inflation forecast is interesting. A soft inflation forecast might provide ammunition for further ECB easing. Various central bankers will speak, including ECB's Draghi. **Yesterday's price move changed the short-term picture for the US currency in a profound way.** The reaction to the BOJ implementation of a negative interest rate illustrates that it is no guarantee for a sustained decline of the currency. The situation in the EMU is different as rates are substantially more negative in absolute terms which we consider a negative for the currency. **We also keep an eye at the link between the dollar and commodities, especially oil.** Will the inverse link between oil and the dollar be restored. Last but not least, the

decline in the interest rate differential between the euro and the dollar (and between the dollar and other currencies) probably added to the US correction. At the same time, most expected Fed tightening for 2016 has been priced out.

EUR/USD as now arrived at levels that could be interesting to reconsider EUR/USD shorts as we assume that the threat of more ECB easing should finally cap the topside in EUR/USD. That said, we first want confirmation that there is no follow-through price action on yesterday's repositioning. In this respect, tomorrow's payrolls play an important role.

From a technical point of view, EUR/USD broke (temporary?) above the 1.1060/1.1124 resistance area (15 Dec top: 62% retracement). Next important resistance is seen at 1.1495. **The picture for USD/JPY improved temporarily as the pair rebounded above 120 after Friday's BOJ policy decision. However, the gains could not be sustained. We remain negative on USD/JPY, especially as long as global uncertainty persists.**

R2	0,7755	-1d
R1	0,7666	
EUR/GBP	0,7601	0,0029
S1	0,7525	
S2	0,7313	

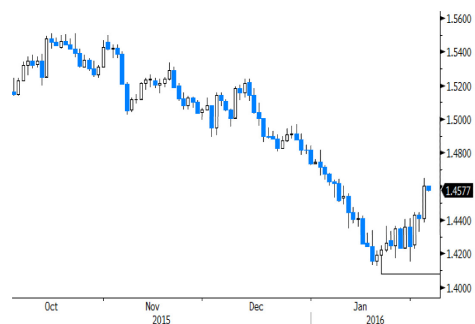
Cable jumps on USD weakness

Yesterday, the price action in sterling was fairly constructive given the volatility on other markets. **The news flow was again mixed, at best.** Oil rebounded but equities struggled. The UK services PMI was marginally better than expected, but the details didn't convince. Investors apparently feared a worse report. The sterling rebound and EUR/GBP drifted to the 0.7530 area. Cable regained the 1.45 level. **Investors maybe also reduced sterling shorts ahead of tomorrow's BoE policy statement.** The BoE is expected to remain soft, but this is probably discounted after the recent sterling decline. In the afternoon, the sterling trading was driven by the repositioning in the dollar. EUR/GBP rebounded in line with EUR/USD and closed the session at 0.7604 (from 0.7577). Cable rebounded further on USD weakness to close the session at 1.4603

Today, the focus is on the BOE policy decision and in particular on the press conference from ECB's Carney and on the inflation report. The BoE is expected to keep a soft tone as inflation will be seen low for longer. However, this should already be discounted as the market only expects a first rate hike after March 2017. Over the previous days, sterling entered calmer waters and event staged a nice rebound against the dollar. A further rebound of the oil price could help to put a floor for sterling short-term. **In a longer term perspective**, uncertainty on Brexit and global risk-off sentiment remain a negative for sterling. 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 enters calmer waters.



EUR/GBP: holding in the 0.76 area



GBP/USD: nicer rebound, but mostly on USD weakness

Calendar

Thursday, 4 February		Consensus	Previous
US			
14:30	Nonfarm Productivity (4Q P)	-2.0%	2.2%
14:30	Unit Labor Costs (4Q P)	4.1%	1.8%
14:30	Initial Jobless Claims	277k	278k
14:30	Continuing Claims	2240k	2268k
16:00	Factory Orders (Dec)	-2.8%	-0.2%
UK			
10:00	New Car Registrations YoY (Jan)	--	8.4%
13:00	Bank of England Bank Rate	0.50%	0.50%
13:00	BOE Asset Purchase Target (Feb)	375b	375b
Events			
08:15	Fed's Rosengren Speaks on Too Big to Fail in Cape Town		
09:00	ECB President Mario Draghi speaks in Frankfurt		
10:00	ECB Publishes Economic Bulletin		
10:30	ECB Governing Council Member Knot Speaks in Frankfurt		
11:00	European Commission releases Winter Economic Forecasts		
13:00	ECB's Mersch Speaks in Zurich		
13:00	Bank of England Inflation Report		
13:30	BoE's Carney Holds Press Conference on Inflation Report		
14:30	Fed's Kaplan Speaks in Dallas on Global Economy		
16:00	IMF's Lagarde Speaks on Emerging And Developed Markets		
23:00	Fed's Mester Speaks on the Outlook for 2016 in New York		
Spain	Bond Auction (1.95% 2026, 4.2% 2037 & IL 0.55% 2019)		
France	Bond Auction (1% 2025, 3.5% 2026, 4%2038)		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,89	0,05	US	0,73	-0,01	DOW	16337 16336,66
DE	0,28	-0,02	DE	-0,49	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,61	0,01	BE	-0,39	-0,01	NIKKEI	17045 17044,99
UK	1,53	-0,01	UK	0,36	0,01	DAX	9434,82 9434,82
JP	0,06	-0,01	JP	-0,20	-0,02	DJ euro-50	2897 2896,63

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,247 -0,015
3y	-0,152	0,925	0,870	Euribor-1	-0,23	0,00	Libor-1 USD	0,51 0,51
5y	0,043	1,208	1,084	Euribor-3	-0,16	0,00	Libor-3 USD	0,59 0,59
10y	0,624	1,739	1,531	Euribor-6	-0,09	0,00	Libor-6 USD	0,74 0,74

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,10735	0,0152	EUR/JPY	130,77	0,10		160,1808	1142	35,38
USD/JPY	118,1	-1,55	EUR/GBP	0,7601	0,0029	-1d	-3,31	14,34	2,91
GBP/USD	1,4566	0,0143	EUR/CHF	1,1141	0,0025				
AUD/USD	0,7173	0,0141	EUR/SEK	9,353	-0,02				
USD/CAD	1,3761	-0,0307	EUR/NOK	9,4796	-0,06				

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