



## Sunrise

Thursday, 08 October 2015

### German bonds stabilize, while US Treasuries lose ground

Fairly uneventful session, in which US equities and supply weighted on US Treasuries. The Bund ended nearly unchanged ignoring weak German production data. Today, the calendar is not very enticing, but a slight risk-off/profit taking may help core bonds. We expect a strong Irish bond auction and maybe some relief after US 30-yr bond auction.

### USD holding tight ranges

Yesterday, the dollar recorded only limited gains even as the risk-on rally continued. Today, a less positive sentiment on risk might be slightly negative for the dollar. Sterling traders will keep a close eye at the BoE minutes. The market is probably positioned for a soft BOE assessment.

### 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 off with a small loss after a solid opening, ending the longest rally since the end of August. **US equities** closed with good gains after a good opening. **Asian equities** are showing a mixed story, with China making up ground after its holiday, but most other bourses are showing losses.
- **German trade balance for August drops to 15.3b, coming from 25.0b.** With exports falling -5.2% M/M in August and imports falling -3.1% M/M.
- **Japan keeps showing signs of weakness, with the machine orders dropping the most in 10 months.** In August, the machine orders dropped -5.7% M/M and -3.5% Y/Y.
- **According to the Wall Street Journal, the Chinese government started to dump U.S. Government debt,** one of the biggest shifts in the treasury markets since the financial crisis.
- **U.S. Presidential candidate Hilary Clinton has opposed the Trans-Pacific Partnership,** making it even harder for Obama to sell the deal to Congress. Noticeable is that Clinton used previously to see the TPP as a 'gold standard'-agreement.
- **Today the eco-calendar remains thin, with the weekly jobless claims in the US** and the BoE deciding on its policy rate and releasing its minutes right after. Also interesting is ECB's **Praet** speaking in Mannheim and the ECB's minutes being released. For the Federal reserve, **Bullard, Kocherlakota and Williams** will be speaking and the Minutes for the FOMC meeting will be released.

# Rates

	US yield	-1d
2	0,609	-0,0080
5	1,3441	-0,0032
10	2,0421	-0,0141
30	2,8741	-0,0189

*Bunds and US Treasuries part ways in quiet session.*

*German bonds stabilize*

*US curve shifts higher*

	DE yield	-1d
2	-0,2510	-0,0030
5	-0,0090	0,0000
10	0,5760	-0,0200
30	1,3190	-0,0430

*Jobless claims worth watching*

*Fed/BOS Minutes to be released*

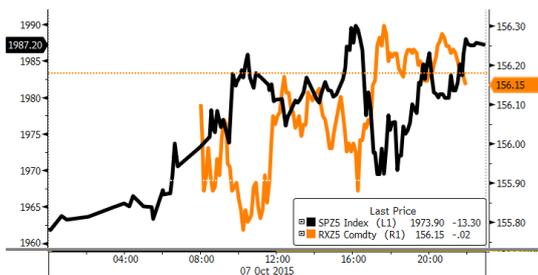
*Fed speakers have already unveiled their thoughts*

## US Treasuries underperform ahead of supply

Global core bonds had a mixed, low volume, trading session yesterday, the opposite of the day before. Now the German Bund traded sideways, while US Treasuries moved lower, before recouping some ground in later trading, when US equities fell temporary over. Technical elements mostly drove the price action, as were some hawkish comments of Fed Williams overnight. Weak German production figures were ignored. The Bund auction went again badly, as it was technically undersubscribed, but left no traces in the overall German bond auction. The US 10-year T-Note auction, went very well, but met little response afterwards, also because US equities were moving again higher. In a daily perspective, the US yield curve shifts 2.4 bps (2-yr) to 4.6 bps (5-yr) higher. Changes on the German yield curve were minimal ranging from flat to -1.3 bps (30-year). On **intra-EMU bond markets**, yield spread changes versus Germany (10-year) are tiny with Greece (-19 bps) and Ireland (-2 bps) outperforming.

## Attention for US claims and the BoE/FOMC Minutes

The US **jobless claims** are expected to remain fairly stable, with initial jobless claims expected at 274k (277K last week) and continuing claims at 2200k for the last week of September. Following the awful September payrolls, markets might be sensitive to an unexpected increase in claims. Regarding **the BoE's meeting, benchmark rate will remain unchanged (0.5%)**, despite some BoE officials already sounding somewhat more hawkish lately. It will be interesting what messages the Minutes will reveal. Also interesting are speeches of ECB's chief economist Praet and US Fed Bullard, Williams and Kocherlakota. Additionally, the Fed will release the **Minutes** of its September meeting.



*S&P future (black) & Bund future (orange) (intraday): Bund ends little changed despite stronger equities*



*Post payrolls rebound brought S&P at first important resistance level. A sustained move above 2000 would be technically relevant.*

The **Minutes of the September FOMC meeting** will be interesting, even if the meeting was already followed by a press conference at which chair Yellen explained their decision not to start the tightening cycle. Global growth concerns and too low inflation apparently played the biggest role in the decision even as we think market volatility played a role too. **How close was the decision in September?** Interesting to know, but **markets already now that since the Minutes, both global and domestic eco data disappointed profoundly, excluding a Fed move in October and probably even in December.** In this respect **Fed speakers** may give more information than the Minutes.

*N 10-yr yield spread*

However, the views of the three governors that speak today are well known: **Kocherlakota** (pleaded for more easing!), **Bullard** (hawk who said that the awful payrolls didn't change his opinion that normalization should have started) and **Williams** (still in favour of a 2015 lift-off).

R2	160,62	-1d
R1	157,67	
<b>BUND</b>	<b>156,49</b>	0,1800
S1	153,5	
S2	152,75	

### US (30-yr) and Ireland (15-yr) tap the market.

The Treasury holds today its a \$13B 30-year Note auction. **Ireland** will tap the market by **selling an expected €1B of its IRISH 2.4% May 2030 (15-yr) bond**. It is the last tap of this bond and also the **last issuance for the year**. Current outstanding is €6.87B. Irish bonds fared well in past weeks, showing some spread narrowing versus Germany and only slightly underperforming Spain and Italy (which have of course higher spread levels). **In ASW terms, the May 2015 trades with a positive spread of 39.5 bps**. The bond offers **decent relative value** on the curve given some underperformance recently versus nearby sectors. **Fundamentals are ok**: strong growth, early repayment of a large part of IMF debt. Rating wise, **S&P upgraded Ireland 1 notch to A+** in June.

**Overnight**, Asian stocks markets trade with negative bias, despite good gains in WS. up to 1% higher, outperforming WS yesterday evening. Chinese equities are up about 4% after a closure of a week, which is disappointing. US Treasuries trade overnight with a positive bias and the Bund opened higher on the worsening of the risk sentiment.

**Today's** eco calendar is nearly empty (only US initial claims). Earlier this morning, the German trade surplus narrowed sharply as exports slumped in August (-5.2%). The Minutes of the BoE, ECB and the FOMC are always interesting literature,. We expect the ECB and BOE Minutes to be soft, but markets have already priced softness. The Fed speakers have recently spoken and thus shouldn't be to influential. The 30-year US bond auction may weigh a bit on US Treasuries ahead of the auction, but some relief may follow the auction. Equities and commodities are on a weaker footing, suggesting that core bond may profit somewhat. .

After the dovish September FOMC meeting, we eyed a return to the contract high for the US Note future (129-10+), but we didn't anticipate a break higher. **That last assumption was under severe pressure after disappointing payrolls, but ultimately both the US Note future and the Bund are back in the ranges. We prefer to install a cautious sell-on-upticks approach around current levels for return action to the lower bound of the established ranges..**



German Bund: test upper bound failed and back in ST range. Longer term uptrend still intact.



US Note future: weak payrolls push US Note future temporary (?) above topside recent range, now back inside range but near top

# Currencies

## Dollar going nowhere

*Dollar holding tight ranges against the euro and the yen*

*USD/JPY drifting below the 120 barrier as sentiment on risk turns less buoyant*

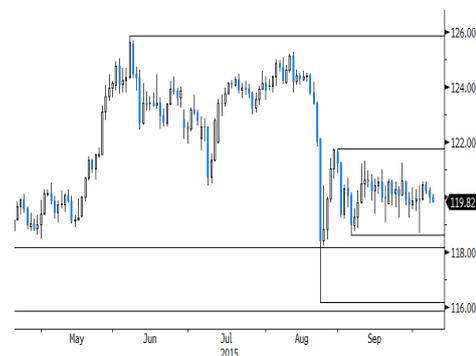
R2	1,1714	-1d
R1	1,146	
EUR/USD	1,12545	-0,0008
S1	1,1087	
S2	1,1017	

On Wednesday trading in EUR/USD and USD/JPY was mainly driven by technical considerations. The price action was again confined to tight ranges. There were no important eco data in Europe and in the US. The rally in commodities and equities also failed to give a clear guidance for USD trading. EUR/USD closed the session at 1.1237 (from 1.1272 on Tuesday). USD/JPY ended the day at 120.01 (from 120.23).

Overnight, Asian equities fell prey to profit taking after the recent risk-on rally. Mainland China indices reopen after the Golden Week Holidays with gains of about 4%. This is a bit disappointing given the gains on other regional markets during the previous week. So, it looks that the global risk rebound is losing some momentum. The dollar is losing slightly ground against the euro EUR/USD at 1.1260) and the yen (USD/JPY currently at 119.85) but the losses are very modest and both cross rate are well anchored within the established ranges. Japanese August machinery orders were very weak. There was some volatility in Japanese equities and in USD/JPY after the publication of the data. The report questions the rather positive assessment of BOJ's Kuroda after yesterday's policy meeting and rekindles calls for more easing. However, in the end the yen is trading slightly stronger in line with sliding equities.



EUR/USD: holding tight ranges.



USD/JPY: hovering around the 120 pivot

Tion

*Dollar still driven by global sentiment on risk*

*For now there is no trigger available for a directional move in the dollar*

Today, there is only second tier eco data on the calendar in Europe. In the US, the weekly jobless claims might spark some intraday volatility. Claims are expected to decline after last week's uptick. We also keep a close eye on central bankers' speak. At noon, ECB's Praet will speak. Will he reiterate/ reinforce the case for more ECB easing in the near future? In the US, Fed's Kocherlakota (ultra dove) and Fed's Williams will speak. Markets will also keep a close eye at the Minutes from the September meeting; the meeting where the Fed finally decided not to raise rates. Global sentiment on risk will also leave its traces on USD trading. USD/JPY is drifting slightly lower in the established range and this process might go a bit further if equities would fall prey to some profit taking. The dollar might also lose ground slightly against the euro, but soft ECB speak might limit the upside in EUR/USD. We also look out how the commodity rebound develops and whether it will have any impact on USD trading.

**The short term picture in the EUR/USD cross rate remains neutral.** It looks difficult for the pair to break out of the 1.1087/1.1460 trading range. 1.1319 marks the post-payrolls high and is a first intermediate resistance.

**In a long term perspective, EUR/USD and USD/JPY might see more range trading. A Fed rate hike will probably be delayed, but such a scenario also raises the chances for more ECB or BOJ easing. In this context, both EUR/USD and USD/JPY might hold the recent ranges. If the policy divergence between the Fed and the ECB would become less obvious, EUR/USD may return toward the topside of this range.**

### BOE minutes in focus

**On Wednesday**, sterling trading was influenced by different drivers, both from inside and from outside the UK. Early in the session, M&A related headlines (higher Bid from AB Inbev for SABMiller) probably supported the UK currency. Mid-morning, manufacturing and industrial production data surprised on the upside. The details of the manufacturing report were mixed, but those details didn't prevent sterling to stay strong. Cable jumped north of 1.53. EUR/GBP dropped to the mid 0.73 area. Later in the session, the speech of UK PM Cameron before the Conservative Party Conference didn't bring much new on the UK/EU relations (Brexit). EUR/GBP closed the session at 0.7336 (from 0.7404). Cable ended the session at 1.5319 (from 1.5227)

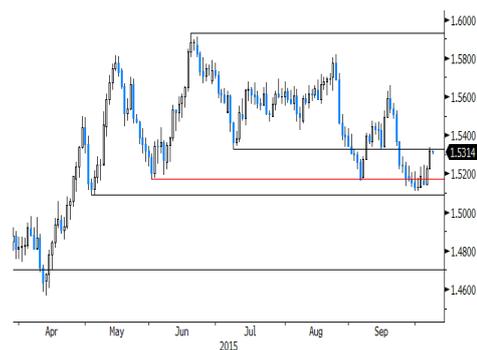
**Overnight, the RICS house price balance was softer than expected** at 44% (from 53%, 55% was expected). EUR/GBP is trading a few tick higher this morning, but this is probably due to overall euro strength rather than sterling weakness. Later today, the **BOE holds a regular policy meeting**. Policy will be remain unchanged, but investors will scrutinize the minutes on changes in the BOE's assessment on the economy and on markets. Of late, several BoE members indicated that they preferred not to wait too long before raising interest rates. It will be interesting to see whether/to what extent BoE governors have softened their view after the Fed decision to leave interest rates unchanged and given recent market volatility. We have to impression that markets are positioned for a very soft BoE assessment. Maybe the BOE sounds less soft than feared. In such a context, the damage for sterling might be limited.

**From a technical point of view**, EUR/GBP is still trading in the upper part of the trading range which is marked by the 0.7423/0.7483 boundaries. The 0.7423 was extensively tested, but no sustain break occurred. Trading north of 0.7483 would deteriorate the sterling short-term technical picture, which is not our preferred scenario. Even so, partial stop-loss protection on EUR/GBP shorts can still be considered.

R2	0,7483	-1d
R1	0,7443	
<b>EUR/GBP</b>	<b>0,7348</b>	-0,0035
S1	0,7196	
S2	0,715	



EUR/GBP: holding near the recent highs/range top



Cable rebounding off the recent lows

# Calendar

Thursday, 8 October		Consensus	Previous
<b>US</b>			
14:30	Initial Jobless Claims (Oct 3)	273k	277k
14:30	Continuing Claims	2203k	2191k
15:45	Bloomberg Consumer Comfort (Oct 4)	--	43.0
<b>Canada</b>			
14:15	Housing Starts (Sep)	--	216.9k
14:30	New Housing Price Index MoM/YoY (Aug)	--/--	0.1%/1.3%
<b>Japan</b>			
01:50	<b>Machine Orders MoM/YoY (Aug)</b>	<b>A: -5.7%/-3.5%</b>	<b>-3.6%/2.8%</b>
01:50	BoP Current Account Adjusted (Aug)	A: ¥1590.1b	¥1321.8b
01:50	Trade Balance BoP Basis (Aug)	A: -¥326.1b	-¥108.0b
<b>UK</b>			
01:01	RICS House Price Balance (Sep)	A: 0,44	0,53
13:00	BOE Asset Purchase Target (Oct)	--	375b
13:00	Bank of England Bank Rate (Oct 8)	0.50%	0.50%
<b>Germany</b>			
08:00	Trade Balance (Aug)	A: 15.33b	25.0b
08:00	Current Account Balance (Aug)	A: 12.3b	23.4b
08:00	Exports SA MoM (Aug)	A: -5.2%	2.4%
08:00	Imports SA MoM (Aug)	A: -3.1%	2.2%
<b>France</b>			
08:30	<b>Bank of France Bus. Sentiment (Sep)</b>	<b>100</b>	<b>98</b>
<b>China</b>			
	Foreign Direct Investment YoY CNY (Sep)	--	22.0%
<b>Events</b>			
	Sweden - Riksbank's Skingsley & Ohlsson Speaking		
07:00	Japan - Bank of Japan's Monthly Economic Report for October		
11:03	Sweden - Sek 0.7bn 1% Jun 2025 I/L bond, Sek 0.3bn 0.125% Jun 2032 I/L bond		
11:30	Ireland - Holds bond auction		
13:10	<b>EMU - ECB's Praet Speaks in Mannheim, Germany</b>		
13:30	<b>EMU - ECB account of the monetary policy meeting</b>		
15:30	<b>US - Fed's Bullard to Give Welcome at Symposium on Savings</b>		
17:30	Italy - Announces details of BTP/CCTeu on 13 Oct		
19:00	<b>US - Fed's Kocherlakota Gives Welcoming Remarks in Mankato, MN</b>		
19:00	US - Usd 13bn 30-year bond auction		
20:00	<b>U.S. Fed Releases Minutes from Sept. 16-17 FOMC Meeting</b>		
21:30	Fed's Williams Gives Outlook Speech in Spokane		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,04	-0,01	US	0,61	-0,01	DOW	16912 16912,29
DE	0,58	-0,02	DE	-0,25	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,90	-0,02	BE	-0,18	0,00	NIKKEI	18141 18141,17
UK	1,83	0,03	UK	0,57	0,02	DAX	9970,4 9970,40
JP	0,33	0,00	JP	0,02	0,01	DJ euro-50	3226 3226,40

IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	USD	td	-1d
3y	0,127	0,963	1,152	Euribor-1	-0,11	0,00	Eonia EUR	-0,139	-0,005
5y	0,356	1,377	1,454	Euribor-3	-0,05	0,00	Libor-1 USD	0,51	0,51
10y	0,954	2,005	1,876	Euribor-6	0,03	0,00	Libor-3 USD	0,58	0,58
							Libor-6 USD	0,75	0,75

Currencies	-1d	Currencies	-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,12545 -0,0008	EUR/JPY	134,78 -0,35		199,5947	1142,4	51,41
USD/JPY	119,79 -0,23	EUR/GBP	0,7348 -0,0035	-1d	3,21	-7,70	-1,09
GBP/USD	1,5314 0,0065	EUR/CHF	1,0934 0,0054				
AUD/USD	0,7173 -0,0010	EUR/SEK	9,2782 0,00				
USD/CAD	1,3064 0,0053	EUR/NOK	9,2403 -0,08				

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