



## Sunrise

Wednesday, 07 October 2015

### Rates: Important signal from Williams?

Fed Williams said that the Fed should communicate its views on the economy/policy well enough so that markets aren't wrong-footed by a Fed lift-off. Williams is a heavyweight voting governor who remains in favour of a 2015 hike. Given current positioning on rate markets, this could be a 1st important signal. We favour cautious sell-on-upticks in US Treasuries.

### Currencies: Dollar rally runs into resistance

Yesterday, the dollar came gradually under pressure. The decline accelerated later in the session and coincided with a rally in commodities. Today, USD trading will be driven by global factors as there are no important eco data. We look out whether commodities become more important as a driver for the dollar.

### 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	→

- Overnight, **US equities** closed with small losses, after an uneventful day of sideways trading. **Asian equities** are currently trading with profits after a solid intraday recovery.
- The Bank of Japan kept its record stimulus unchanged** this morning amid growing speculation that signs of a recession will press it to act at the end of the month.
- China's foreign exchange reserves shrank another \$43B last month**, suggesting the **central bank continues** to deplete its firepower **to support the renminbi**. Total reserves are now \$3.514tn, the lowest since July 2013.
- The German industrial production for August decreased** by 1.2% M/M and grew 2.2% Y/Y compared to last year. This number was well below the expected +0.2% M/M and 3.3% Y/Y growth.
- Commodities** continued their strong run yesterday, with the **Brent oil** price **increasing from \$49/barrel to \$52/barrel**, the highest level since the end of August.
- The **Fed should be communicating its views of the economy well enough** that markets will not be taken by surprise by an eventual interest rate hike, SF Fed governor **Williams said**. Williams is a voting member and supports a 2015 lift-off.
- Today's eco calendar remains thin with only UK and German industrial production data**. On the supply front, Germany and the US tap the market.

# Rates

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

*German curves bear steepens*

*US curve bull flattens*

	US yield	-1d
2	0,617	0,0159
5	1,3473	0,0130
10	2,0562	0,0141
30	2,893	0,0087

	DE yield	-1d
2	-0,2480	0,0080
5	-0,0090	0,0180
10	0,5960	0,0300
30	1,3620	0,0290

*Fed Williams still sees 2015 lift-off*

*More communication from Fed required if liftoff to proceed*

*QE holdings lower 10-yr yields by 1-to 1.25%*

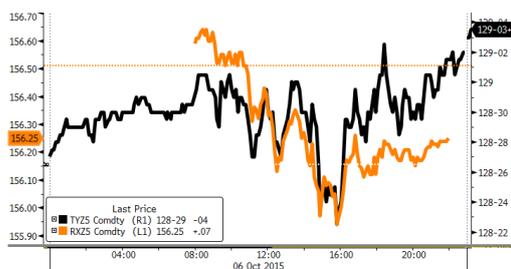
## Mixed performance core bonds in quiet trading.

Global core bonds had a rather uneventful session, as the equity rally fizzled out and the few eco data were largely ignored. The Bund traded with a downward bias throughout the session though while the US T-Note future held a narrow sideways trading range. At 4 pm CET, the IMF published its quite bleak outlook which pushed Bunds and US Treasuries temporary higher. The US 3-yr Note auction was ok, but didn't affect the global market. In a daily perspective, the German curve bear steepened with yields up between 1.1 bp and 3.4 bps. The US yield curve bull flattened with yields down between 0.4 and 2.8 bps. Peripheral yield spreads widened 1 to 2 bps. Greece continued to outperform (-17 bps).

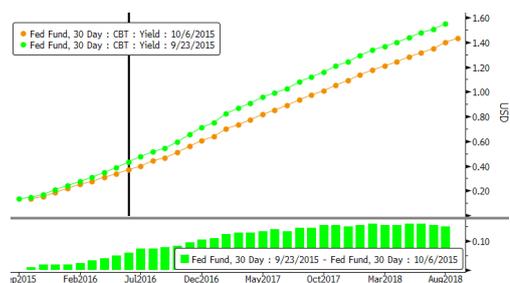
There are no market moving items on the economic calendar today. German production has been published this morning (see headlines). The US Treasury holds its 10-year T-Note auction and the German Finanzagentur taps the 10-yr Bund. (see below)

## Fed Williams still sees lift-off

San Francisco Fed Williams repeated, now after the awful payrolls, that it still makes sense for a Fed rate lift off in 2015. He argues that the US needs at most 100 000 jobs a month to keep unemployment near the full employment NAIRU (where it is now according to Williams). Of course, he is in favour of a gradual tightening of policy (most gradual ever) after the lift-off. Williams is not worried that markets aren't totally convinced of the timing of the lift-off, but it shouldn't be the case that no one is expecting a rate increase. So, the Fed should communicate its views well enough that markets are not taken by surprise by an eventual rate hike. He sees overall no fundamental shift in the global outlook and is bullish on China. Williams sees some signs of domestic inflation pick-up, but is not worried about inflation. Other imbalances may be building. Normal market volatility doesn't bother him. According to Williams, the Fed's QE holdings keep 10-yr yields 1 to 1.25% lower than otherwise. Summarizing, Williams still thinks a 2015 lift-off is appropriate, but we will listen closely to other governors, especially those of the board and the communication of the Fed leadership (Yellen/Fischer).



T-Note future (black) & Bund future (intraday): Underperformance Bunds(in quiet trading)



Fed Funds rate strip curve: (yesterday versus 2 weeks ago): Curve shifts lower. Liftoff only fully discounted (37 bps) by mid 2016.

## Germany and US tap 10yr bonds

R2	160,62	-1d
R1	157,67	
<b>BUND</b>	<b>156,25</b>	<b>0,0000</b>
S1	153,5	
S2	152,75	

**The German Finanzagentur taps the on the run 10-yr Bund (€4B 1% Aug2025).** Total bids at the previous 5 Bund auctions averaged only €4.06B and we don't expect much improvement today. Year to date, the German Finanzagentur completed around 75% of this year's expected funding need.

**In the US, the Treasury started its end-of-month refinancing operation with a \$24B 3-yr Note auction which went well enough overall.** The bid cover was the smallest since August 2014, but the auction stopped firmly through the 1:00 PM bid side. Bidding details showed that particularly the direct bid was good.

**Today, the Treasury continues its refinancing operation with a \$21B 10-yr Note auction.** Currently, the WI is trading around 2.06%.

### Today: Cautious sell-on-upticks

**Overnight,** Asian stocks markets trade up to 1% higher, outperforming WS yesterday evening. The BoJ kept its policy unchanged and for now thus abstains from easing its policy further. SF Fed Williams sounded hawkish (see above) and the US Note future trades marginally lower.

**Today's** eco calendar is completely empty apart from the auctions mentioned above. Earlier this morning, German production data for August disappointed. Apart from risk sentiment on equity markets, commodity prices could be important for core bond trading as they show signs of bottoming out (e.g. Brent oil price above \$52/barrel). A further recovery is a negative for core bonds. The US supply (10yr & 30yr taps ahead) could additionally weigh at the long-dated US Treasuries.

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.** Fed Williams' recent comments suggest that the Fed could/will do some more communicating to publicly endorsing a 2015 lift-off. In this respect, FOMC speeches will be closely monitored. Fed Williams, Bullard (Wednesday),



German Bund: Test upper bound ongoing. In yield terms 0.47% is key support (currently 0.56%).



US Note future: weak payrolls push US Note future temporary (?) above topside recent range

# Currencies

## Dollar rally fizzles out as commodities rebound

*Dollar running into resistance*

*Rise in commodities weighs on USD*

R2	1,1714	-1d
R1	1,146	
EUR/USD	1,12625	0,0079
S1	1,1087	
S2	1,1017	

*Dollar remains slightly in the defensive in Asia*

*BOJ unchanged decision pushing USD/JPY temporary lower*

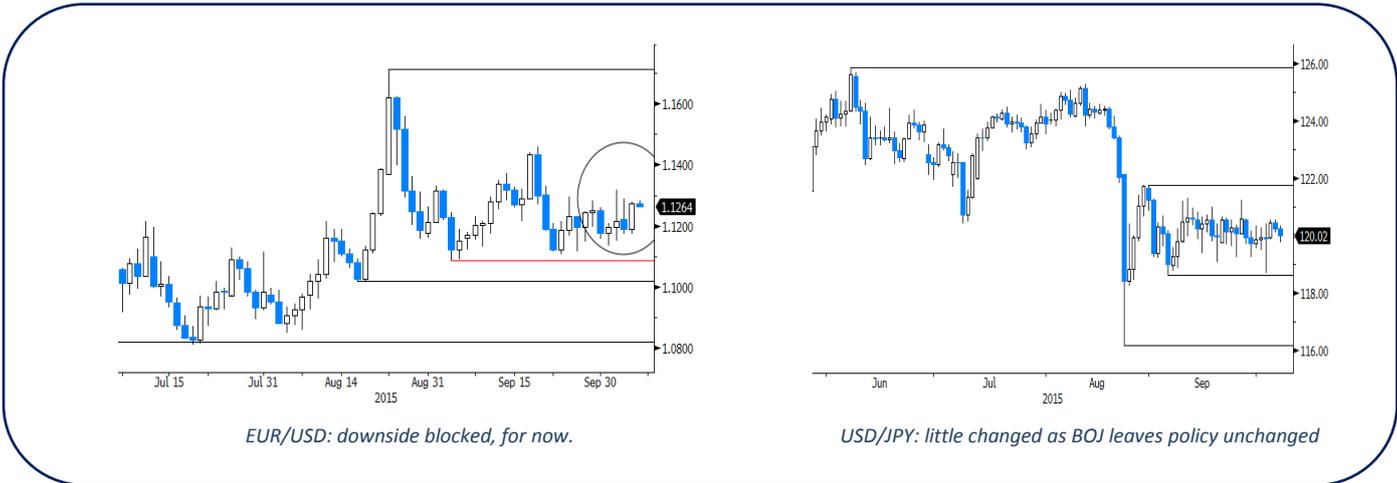
*Dollar to be driven by global sentiment on risk and commodities*

*Will the inverse correlation between the dollar and commodities become again more important?*

On Tuesday, the equity rally slowed and so did the US dollar momentum. EUR/USD initially held close to the 1.12 barrier. USD/JPY hovered mostly in the lower half of the 120 big figure. The US trade deficit widened sharply but was ignored. Later in the session, the dollar lost some ground, especially against the euro. The move coincided with a rebound of several commodities including oil. Long term interest rate differentials between the US and Europe moved also in favour of the euro. EUR/USD closed the session at 1.1272 from 1.1188. The swings in USD/JPY were much more limited. The pair ended the session at 120.23 down from 120.46 on Monday.

**Overnight**, Asian equities continue the gradual uptrend, even as US equities fell prey to profit taking yesterday. The rise of oil and other commodities is supporting emerging markets' equities. The Nikkei initially underperformed as the BOJ left its policy unchanged, but caught up later on. USD/JPY dropped temporary from the 120.30 area to the 119.75/80 area, but trades again in the 120.00 area. **China's foreign exchange reserves** declined by \$ 43.3 bln in September. It mirrors the PBOC interventions to stabilize the yuan as uncertainty rose in the wake of a surprise yuan devaluation in August. EUR/USD filled offers in the 1.1280 area this morning, but trades slightly lower currently (1.1260). The rise in commodities apparently weighs on the dollar, including on USD/EUR.

**Today**, there are only second tier eco data on the calendar in Europe and in the US. So, **global sentiment on risk and maybe also the performance of commodities will set the tone for USD trading**. Yesterday, the USD rally ran into resistance even as sentiment on equities stayed rather constructive. We also keep an eye at commodities including the likes of oil and gold. Of late, the link between commodities and the dollar wasn't that tight. However, we look out whether the inverse correlation between commodities and the dollar will be restored. The jury is still out, but we have the impression that commodity developments might make the topside in the dollar more difficult short-term. **In a day-to-day perspective, we maintain the view that the short-term rebound of the dollar is running into resistance**. The 1.1087 support is a tough support. 1.1319 marks the post-payrolls high and is a first intermediate resistance. 1.1460 is key medium term. A test of that level might be on the cards.



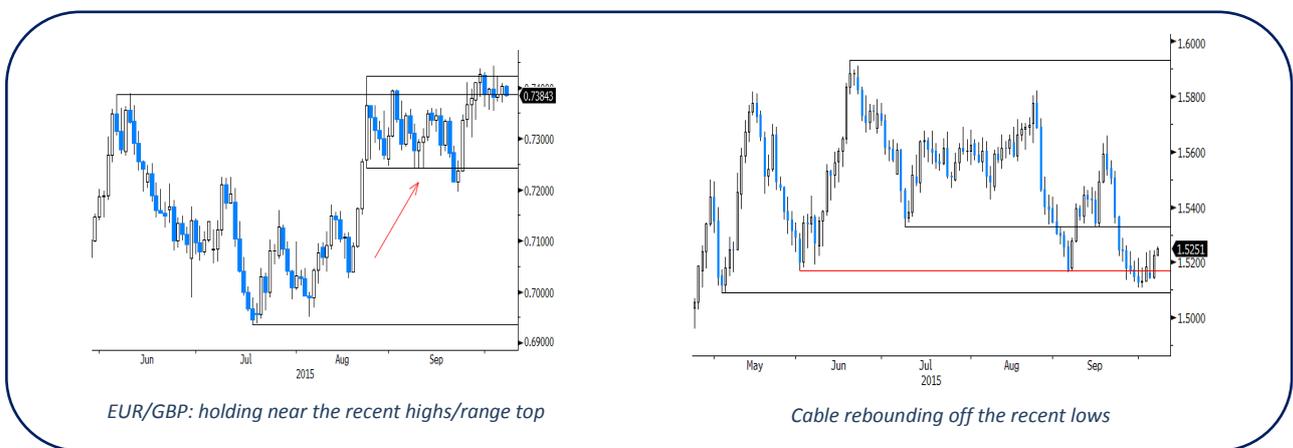
In a long term perspective, EUR/USD and USD/JPY might see more range trading. A Fed rate hike will be delayed, but such a scenario also raises the chances for more ECB or BOJ easing. In this context, both EUR/USD and USD/JPY might still hold the recent ranges. From technical point of view, EUR/USD is holding the established sideways consolidation pattern. The dollar rebound ran into resistance just north of the EUR/USD 1.1087 support. **1.1087/1.1017 is a solid bottom. 1.1460 is a first interim resistance. 1.1714 is the line in the sand.** If the policy divergence between the Fed and the ECB would become still less obvious, EUR/USD may return toward the topside of this range.

R2	0,7483	-1d
R1	0,7443	
<b>EUR/GBP</b>	<b>0,7383</b>	0,0007
S1	0,7196	
S2	0,715	

### Cable rebounds

**On Tuesday**, there was no eco data with market moving potential on the agenda in the UK. At the same time, the price action in the dollar and/or the euro initially didn't give any clear guidance for sterling trading. Later in the session, cable followed a late session decline of the dollar. Cable closed the session at 1.5227 (from 1.5146 on Monday). In this dollar decline, EUR/USD and cable moved largely in lockstep. EUR/GBP closed the session at 0.7404 (from 0.7387).

**Overnight**, BRC shop prices dropped -1.9% Y/Y (from -1.4% Y/Y in August). The report had no negative impact on sterling. Sterling is even gaining slightly ground against the euro and the dollar this morning? **Later today**, the UK production data and the NIESR GDP estimate will be published. August production is expected to rebound after a very poor July figure. Recent UK data from the production sector often surprised on the downside. So, we don't expect a big positive impact on sterling. We also look at the speech of UK PM Cameron on EU membership. **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.



# Calendar

Wednesday, 7 October		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications (Oct 2)	--	-6.7%
21:00	Consumer Credit (Aug)	\$19.500b	\$19.097b
<b>Japan</b>			
	BOJ Annual Rise in Monetary Base (Oct 7)	A: ¥80t	¥80t
07:00	Leading Index CI (Aug P)	A: 103.5	105.0
<b>UK</b>			
01:01	BRC Shop Price Index YoY (Sep)	A: -1.9%	-1.4%
10:30	Industrial Production MoM/YoY(Aug)	0.3%/1.2%	-0.4%/0.8%
10:30	Manufacturing Production MoM/YoY (Aug)	0.3%/-0.2%	-0.8%/-0.5%
16:00	NIESR GDP Estimate (Sep)	--	0.5%
<b>Germany</b>			
08:00	Industrial Production SA MoM (Aug)	A: -1.2%	0.7%
08:00	Industrial Production WDA YoY (Aug)	A: 2.3%	0.5%
<b>China</b>			
	Foreign Reserves (Sep)	A: \$3514.1b	\$3557.4b
<b>Norway</b>			
10:00	Industrial Production MoM/WDA YoY (Aug)	--/--	-1.5%/2.8%
10:00	Ind Prod Manufacturing MoM/WDA YoY (Aug)	0.0%/--	-1.6%/-6.0%
<b>Sweden</b>			
09:30	Budget Balance (Sep)	--	21.1b
09:30	Household Consumption (MoM) (Aug)	--	-0.2%
09:30	Household Consumption (YoY) (Aug)	--	2.9%
<b>Switzerland</b>			
09:00	Foreign Currency Reserves (Sep)	--	540.4b
<b>Events</b>			
	Japan - Bank of Japan Monetary Policy Statement		
09:30	LX - EU Court Rules on ECB Lawsuit by Italian Investors		
11:00	Sweden - Riksbank's Floden Speaks		
11:30	Germany - Eur 4bn 1.0% Aug 2025 Bund		
13:00	NL - Dutch Central Bank to Publish Overview Financial Stability		
16:30	Sweden - Announces details of auction on 14 Oct		
19:00	US - Usd 21bn 10-year note auction		

10-year	td	-1d	2 -year	td	-1d	STOCKS	-1d
US	2,06	0,01	US	0,62	0,02	DOW	16790,19
DE	0,60	0,03	DE	-0,25	0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,92	0,04	BE	-0,18	0,00	NIKKEI	18355,18354,55
UK	1,80	0,01	UK	0,55	0,01	DAX	9902,83,9902,83
JP	0,33	0,01	JP	0,01	0,01	DJ euro-50	3220,3220,09

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,134,0,01
3y	0,126	0,973	1,120	Euribor-1	-0,11	0,00	Libor-1 USD	0,51,0,51
5y	0,354	1,383	1,424	Euribor-3	-0,05	0,00	Libor-3 USD	0,58,0,58
10y	0,966	2,026	1,847	Euribor-6	0,03	0,00	Libor-6 USD	0,75,0,75

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,12625	0,0079	EUR/JPY	135,13	0,45		196,3824	1150,1	52,5
USD/JPY	120,025	-0,41	EUR/GBP	0,7383	0,0007	-1d	2,28	14,10	3,07
GBP/USD	1,5249	0,0092	EUR/CHF	1,088	-0,0034				
AUD/USD	0,7183	0,0060	EUR/SEK	9,281	-0,03				
USD/CAD	1,3011	-0,0056	EUR/NOK	9,3200	-0,07				

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