



Sunrise

Wednesday, 30 September 2015

Core bonds stabilize as calmness returns to equities and commodities

Eco data had only temporary effect, as trading was dominated by the easing of risk-off sentiment. US Treasuries profited from month-end extension buying and eked out small gains. Overnight, Asian equities perform well putting US Treasuries under some downward pressure. Eco calendar is interesting, but we expect consolidation ahead of US ISM & payrolls.

Dollar hardly profits from easing of global tensions

Yesterday, the global market sell-off eased. A reversal of the risk-off trade is in theory positive for the dollar, but the gains of the US currency against the euro and the yen were limited. Today, the eco data might be slightly negative for the euro and supportive for the dollar. Interesting to see whether the dollar will be able to make a comeback.

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 narrowly mixed yesterday, stocks recovered after a weak opening, lateral trading dominated. **US equities** closed off mixed in the green after a day of sideways movement (S&P/Dow positive, Nasdaq negative).
- **Asian equities** are currently trading nicely in the green, especially Japan is making a decent recovery.
- **Chinese consumers are becoming more optimistic, despite the weaker economic performance.** The Westpac MNI Consumer Sentiment rose from 116.5 in August to 118.2 in September, up from a low of 111 in May.
- **The Japanese economy keeps performing beneath expectations, with industrial production for August reporting well below consensus.** Industrial production fell 0.5%M/M (0.2% Y/Y) vs. an expected 1.0% M/M growth.
- **The Congress of Brazil decides today, whether to uphold presidential vetoes** on spending bills that threaten to torpedo needed austerity and deepen a selloff in assets. Real trades around \$/BRL 4.06
- **Today, the eco calendar contains the first data of EMU inflation, EMU unemployment rate for August and the Chicago PMI and ADP employment in the US.**

Rates

*Core bonds unchanged
(Germany) to higher (US)*

Spain continues to outperform

	US yield	-1d
2	0,6565	0,0000
5	1,401	0,0000
10	2,0755	0,0018
30	2,8726	0,0157

*Downside risks EMU inflation
and unemployment rate*

Upside risks Chicago PMI.

*ADP employment precursor for
Friday's payrolls.*

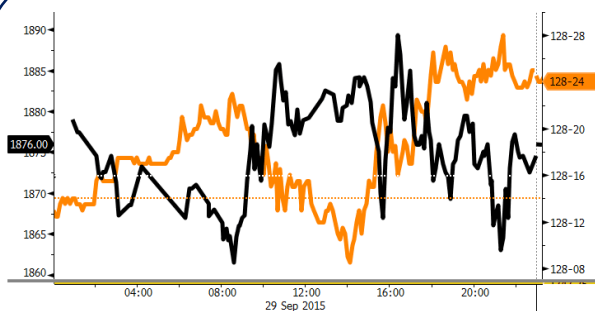
	DE yield	-1d
2	-0,2510	0,0040
5	0,0060	0,0140
10	0,5920	0,0160
30	1,3260	0,0280

Core bonds trade sideways as stock markets stabilize

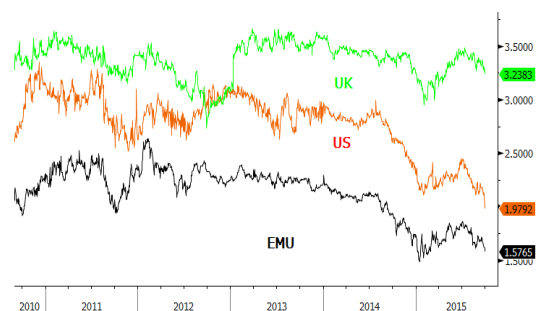
Global core bonds ended flat (Germany) to somewhat higher (US), as equity markets stabilized following Monday's beating. German inflation turned negative again and put an intraday bottom under the Bund market. US house prices were a bit soft, but consumer confidence surprised on the upside. The latter temporarily pushed core bonds lower, but month-end extension buying pushed especially US Treasuries higher. Equities finally closed narrowly mixed. In a daily perspective, German yields were virtually unchanged, while the US yield curve shifted lower with the belly slightly outperforming and yields 2 to 4.4 bps lower. On intra-EMU bond markets, 10-yr yield spread changes versus Germany dropped 3 bps in Spain and Italy with Portugal outperforming (-8 bps).

EMU inflation and unemployment and Chicago PMI

Following a stabilization in August, **EMU inflation** is expected to have dropped in September to 0% Y/Y from 0.2% Y/Y in August. Yesterday, German inflation dropped to a below consensus -0.2% Y/Y (from +0.1% Y/Y previously), while also Spanish inflation surprised on downside, easing further from -0.5% Y/Y to -1.3% Y/Y. So, **there is a downside risk to market consensus for the EMU inflation, but it shouldn't be a surprise** Also in the **EMU, the unemployment rate** is expected to stay unchanged at 10.9%. We believe however that the **risks are for a limited drop**. In the US, the **Chicago PMI** is expected to drop slightly for September. Market consensus expects the PMI to drop from 54.4 to 53.0. We believe that **the risks are for a limited increase**, following a marginally better than expected Markit PMI report. The ADP employment report is expected to have stabilized at 190K, slightly below the two year average. Initial claims were very strong in recent weeks, but we hesitate to distance us from consensus.



T-Note future (orange) & SPX future (black). Equities move sideways, but US Treasuries end with gains on month-end buying.



Inflation expectations (5yr/5yr): US inflation expectations drop below 2% to lowest ever. Fed unsure about message inflation market as survey inflation expectations stabilize.

Finland taps very long end

R2	160,62	-1d
R1	156,84	
BUND	156,11	0,0000
S1	152,75	
S2	151,87	

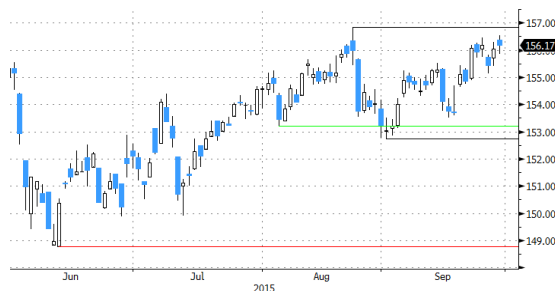
The Finnish treasury taps two long-dated RFGB's for up to €1B (0.75% Apr2031 & 2.625% Jul2042). In the run-up to the auction, both bonds cheapened around 5 bps in ASW-spread terms. At the very long end of the Finnish curve, the Apr2031 RFGB (launched earlier this year) trades cheap. After this auction, Finland raised more than 70% of this year's funding need.

Today: More neutral trading ahead of payrolls?

Overnight, Asian stock markets recover from yesterday's beating with Japan outperforming despite weaker industrial production data and retail sales. The US Note future trades with a downward bias, suggesting a slightly weaker opening for the Bund as well.

Today's eco calendar contains US ADP, Chicago PMI and EMU CPI. EMU inflation is expected at 0.0% Y/Y with risks on the downside of expectations. In that case, there could be plenty of headlines about negative inflation and the need for the ECB to step up its QE-programme. That's a positive for the Bund, but after the German and Spanish CPI's, a below consensus figure is likely. Risks for US eco data are on the upside of expectations, but the impact (weaker US Treasuries) might be limited ahead of Friday's payrolls. Risk sentiment on equity markets is still fragile and remains a wildcard for trading. Uncertainty about the 2016 budget can still cause a US government shutdown (1 October) but House speaker Boehner indicated that a deal was highly likely. **Taking everything into account, we are neutral for today's trading.**

More general, **both the ECB and the Fed hang on to very easy policies. The Fed keeps extending its ZIRP while the ECB keeps the door open to additional QE. Therefore we believe that recent lows (Bund: 152.75; US Note future 126-16+) put a floor under the core bond market. While a return towards the recent highs (Bund: 156.84; US Note future 129-10+) is likely, we don't turn outright bullish bonds. Range bound trading can be expected.**



German Bund: dovish ECB and risk aversion underpin Bund



US Note future: trapped between 126-16+ and 129-10+

Currencies

R2	1,1714	-1d
R1	1,146	
EUR/USD	1,1235	-0,0033
S1	1,1087	
S2	1,1017	

Dollar stabilizes as risk-off dissipates

USD doesn't profit from this morning's equity rebound in Asia

Data might be slightly negative for the euro and positive for the USD

Dollar holding in well-known territory

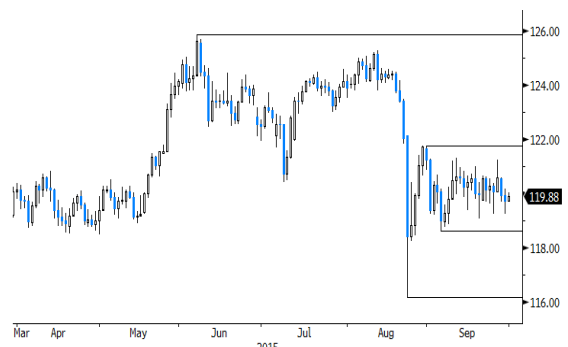
Yesterday, calm returned to global equity markets after Monday's commodity driven carnage. This calmness also halted the decline of the dollar. However, the moves in the major USD cross rate rates were limited. The German CPI dropped back in negative territory (-0.2% Y/Y) and US consumer confidence was strong, but both reports had hardly impact on euro or USD trading. EUR/USD closed the session at 1.1249, virtually unchanged. USD/JPY ended the day at 119.74, down from 119.92 on Monday.

This morning, Asian equities recover following a return of calmness in US markets yesterday. Japan outperforms. **Japanese retail trade and production data** were again weak, but had no impact on equities or on the yen, as global risk-on sentiment dominated. Emerging markets' currencies (INR, IDR, CNY) show signs of stabilisation. AUD/USD trades again north of the 0.70 barrier. The impact of the easing of global market tensions on the EUR/USD (1.1255) or USD/JPY (119.85) is remarkably limited. This applies especially to USD/JPY which hardly profits from a 2%+ rebound of Japanese equities.

Today, the calendar is interesting both in the US and in Europe. Given the outcome of the German and Spanish CPI data, a negative figure in the EMU HICP inflation is likely (consensus still stands at 0.0% Y/Y). The core figure is expected unchanged at 0.9% Y/Y. **A negative surprise in the core or a very negative (-0.3% Y/Y headline CPI) should support the case for more ECB easing. Even so, yesterday the low German inflation data had little impact on EUR/USD.** In the US, the ADP labour market report and the Chicago PMI will be published. After recent turbulence, the market is probably positioned for a not too strong figure. **So, maybe there are upside risks.** In such a scenario, we are keen to see whether the US dollar can gain ground. Of course, with the ISM manufacturing and the payrolls on the horizon, the USD reaction might still be guarded. Aside from the data, global market sentiment will remain a key factor for USD trading. In daily perspective, **the odds for the dollar look a bit more constructive compared to yesterday morning.** However, high profile news is needed to pushed EUR/USD and USD/JPY away from recent levels.



EUR/USD going nowhere as risk-off trade eases



USD/JPY holding near the 120 pivot

Wednesday, 30 September 2015

In a broader perspective, the global picture for the dollar (EUR/USD) hasn't changed (yet). The dollar rebound ran into resistance at the end of last week, but for now EUR/USD is holding the established sideways consolidation pattern. **1.1087/1.1017 looks like a solid bottom for now. 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 less obvious (delay in Fed rate hike expectations), EUR/USD might return toward the topside of this range.**

R2	0,7593	-1d
R1	0,7483	
EUR/GBP	0,7409	-0,0011
S1	0,7196	
S2	0,715	

EUR/GBP holds near the range top

Yesterday, sterling trading was still mostly driven by global factors rather than by UK data. Trading on global markets remained nervous, but not as negative as on Monday. This context temporarily eased the pressure on sterling. Cable briefly regained the 1.52 barrier, but USD strength later in the session pushed the pair back to the 1.5135 support area. Monday's risk-off rise of the euro ran into resistance. EUR/GBP traded north of the 0.7423 resistance early in the session, but (temporarily) dropped back below 0.74. The UK lending data were mixed, but with strong growth in housing related lending. CBI reported sales were also very strong. In both cases the data were unable to trigger any sustained sterling gains. EUR/GBP closed the session at 0.7426 (from 0.7411).

This morning, GfK consumer confidence unexpectedly dropped from 7 to 3, for now the impact on sterling trading is limited. **Later today**, the final release of the UK Q3 GDP will be published. The data is outdated, so we don't expect a big reaction of sterling. Sterling performed rather poor of late. Markets apparently conclude that recent turmoil is making a BOE rate hike at the turn of the year unlikely. So, we look out whether sentiment on sterling improves if global tensions ease further.

From a technical point of view, EUR/GBP is again trading in the upper part of the trading range which is marked by the 0.7423/0.7483 area. The 0.7423 level is currently under test. Sustained trading north of 0.7483 would deteriorate the short-term picture for sterling. Partial stop-loss protection on EUR/GBP shorts can be considered.



EUR/GBP tests the range top



Cable tests 1.5165/30 support

Calendar

Wednesday, 30 September		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	13.9%
14:15	ADP Employment Change (Sep)	190k	190k
15:45	Chicago Purchasing Manager Index (Sep)	53.0	54.4
Canada			
14:30	GDP MoM/YoY (Jul)	0.2%/0.7%	0.5%/0.6%
Japan			
01:50	Industrial Production MoM/YoY (Aug P)	1.0%/1.8%	-0.8%/0.0%
01:50	Retail Trade MoM/YoY (Aug)	1.2%/0.5%	1.6%/1.2%
01:50	Large Retailers' Sales (Aug)	1.3%	2.1%
07:00	Housing Starts YoY (Aug)	7.6%	7.4%
07:00	Construction Orders YoY (Aug)	--	-4.0%
UK			
01:05	GfK Consumer Confidence (Sep)	5	7
08:00	Nationwide House PX MoM/NSA YoY (Sep)	0.4%/3.8%	0.3%/3.2%
10:30	Current Account Balance (2Q)	-22b	-26.5b
10:30	GDP QoQ/YoY (2Q F)	0.7%/2.6%	0.7%/2.6%
10:30	Total Business Investment QoQ/YoY (2Q F)	2.9%/--	2.9%/5.0%
10:30	Index of Services MoM/3Mo3M (Jul)	0.2%/0.8%	0.5%/0.7%
EMU			
11:00	Unemployment Rate (Aug)	10.9%	10.9%
11:00	CPI Estimate YoY (Sep)	0.0%	--
11:00	CPI Core YoY (Sep A)	0.9%	0.9%
Germany			
09:55	Unemployment Change (000's) (Sep)	-5k	-7k
09:55	Unemployment Claims Rate SA (Sep)	6.4%	6.4%
France			
08:45	PPI MoM/YoY (Aug)	--/--	-0.1%/-1.6%
08:45	Consumer Spending MoM/YoY (Aug)	0.4%/1.7%	--/--
Italy			
10:00	Unemployment Rate (Aug P)	12%	12.0%
11:00	CPI EU Harmonized MoM/YoY (Sep P)	1.7%/0.3%	0.0%/0.4%
12:00	PPI MoM/YoY (Aug)	--/--	--/--
Belgium			
11:00	Unemployment Rate (Aug)	--	8.5%
China			
03:45	Westpac-MNI Consumer Sentiment (Sep)	--	116.5
Norway			
10:00	Credit Indicator Growth YoY (Aug)	--	5.7%
10:00	Norges Bank Daily FX Purchases (Oct)	--	-700m
Events			
09:00	Sweden - Meeting of the Executive Board of the Riksbank		
11:10	Italy - Sek 2bn 1.5% Nov 2023 bonds		
14:00	US - Fed's Dudley Speaks on Market Liquidity in New York		
21:00	US - Fed's Yellen, Bullard Speak on Community Banking in St. Louis		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,08	0,00	US	0,66	0,00	DOW	16049 16049,13
DE	0,59	0,02	DE	-0,25	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,92	-0,01	BE	-0,19	0,00	NIKKEI	17388 17388,15
UK	1,75	-0,02	UK	0,52	-0,01	DAX	9450,4 9450,40
JP	0,35	0,01	JP	0,02	0,00	DJ euro-50	3030 3029,86

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	Eonia EUR	-0,135	0,011
3y	0,124	0,990	1,116	Euribor-1	-0,11	Libor-1 USD	0,51	0,51
5y	0,350	1,394	1,413	Euribor-3	-0,04	Libor-3 USD	0,58	0,58
10y	0,951	2,002	1,817	Euribor-6	0,03	Libor-6 USD	0,75	0,75

Currencies	-1d	Currencies	-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1235 -0,0033	EUR/JPY	134,72 0,17		193,5748	1126,3	47,93
USD/JPY	119,94 0,48	EUR/GBP	0,7409 -0,0011	-1d	0,77	-0,30	0,57
GBP/USD	1,516 -0,0018	EUR/CHF	1,0931 -0,0012				
AUD/USD	0,7008 0,0064	EUR/SEK	9,4476 -0,06				
USD/CAD	1,3406 0,0002	EUR/NOK	9,5295 -0,08				

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