



Sunrise

Monday, 30 November 2015

Rates: New high for Bund in technical trading

Dull technically-inspired trading on Black Friday with small yield changes in the close. Today's data won't have much impact, but given the dovish positioning ahead of the ECB, we might see some scaling back of long positions going towards Thursday's meeting. For US Treasuries, we hold on to our sell-on up-ticks approach.

Currencies: EUR/USD holds within reach of the recent lows

At the end of last week, trading in EUR/USD and USD/JPY developed in familiar territory. Anticipation on further ECB easing keeps the topside in EUR/USD well protected. Today, the German inflation data and the Chicago PMI probably won't change the broader picture for euro or USD trading. The euro remains in the defensive ahead of the ECB policy decision.

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	→

- On Friday, **European equities** ended the session with small losses. **US equities** traded relatively flat in a shortened trading session. Overnight, **Asian equities** are trading weak, with most indices showing red figures.
- The **Japanese industrial production is rather mixed, as it rose 1.4% M/M in October, weaker than the expected 1.8% M/M**, but they fell -1.4% Y/Y, much harder than the expected decline of -0.9% Y/Y.
- Brighter Japanese news came from the retail sales, which improved 1.1% M/M in October, overshooting an expected 0.3% M/M.** Additionally, the September reading was upwardly revised from 0.7% M/M to 0.8% M/M.
- Commodities** continued their slide on Friday, as **Brent Crude** settled below the \$45 mark, currently **trading at 44.71 \$/barrel**. **Gold also continued to decline** on Friday, **currently trading at 1055\$/ounce**, the lowest level since February 2010
- The eco-calendar is rather thin today. **In the US, the Chicago PMI and the Dallas Fed manufacturing indicator will be released.** In the **EMU**, the **German CPI data**. Also interesting today is **the IMF decision on whether to add the Chinese Yuan to their SDR currency basket.**
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Rates

Bund tests highs in technically-inspired session

Dull trading on Black Friday

	US yield	-1d
2	0,9304	0,0001
5	1,6577	0,0082
10	2,2271	0,0193
30	3,0023	0,0293

Downside risks to Chicago PMI

German inflation expected to creep marginally higher in November

Yuan to be allowed in SDR, but no immediate effects for global bonds

	DE yield	-1d
2	-0,4140	0,0000
5	-0,1850	0,0004
10	0,4552	-0,0160
30	1,2990	-0,0130

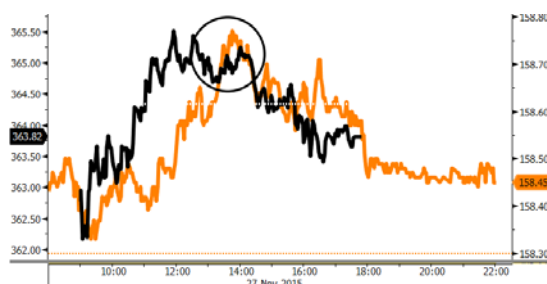
New high for Bund in technical trading

Global core bonds traded with a slight upward bias in a technically-inspired session. EC confidence data were mixed to slightly stronger than expected, but ignored. The Bund reached a new cycle high (158.78), but couldn't sustain all of its gains, closing officially just 1 tick below the 158.60 previous high.

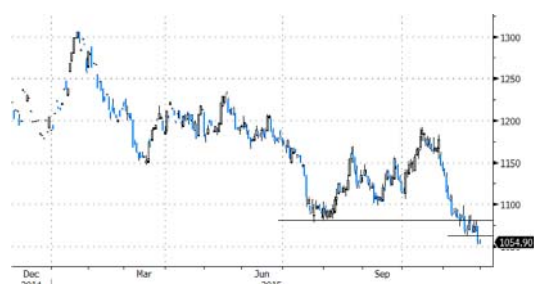
Volumes were lower than usual in the Bund contract and extremely low on the US Treasury market (Black Friday). In a daily perspective, the German yield curve barely shifted 0.2 bps (2-yr) higher to 1 bp lower (10-yr). Changes on the US yield curve ranged between -1.4 bps (10-yr) and -2.7bps (3-yr), the 3 to 7-yr outperforming. The very long end lagged with 30-yr US yields up a tiny 0.2 bps. On intra-EMU bond markets, 10-yr yield spreads versus Germany narrowed up to 3 bps (Portugal). The Italian BTP auction went well.

German CPI and US Chicago PMI sole data of interest

The eco calendar is thin and not very enticing for markets ahead of the ECB meeting on Thursday and the US payrolls and the OPEC meeting on Friday. In the US, the Chicago PMI is expected to decline from 56.2 to 54.0 while the Dallas Fed. Manufacturing index is expected to improve from -12.7 to -12.0. For both indicators, we see some downside risks as other regional business sentiment showed some negative momentum in November. In the EMU, German inflation data draw attention. Headline inflation is expected to pick up to 0.1% M/M and 0.3% Y/Y in November from 0.0% M/M, and 0.2% Y/Y in October. It shouldn't affect the ECB decision anymore. We see no reasons to take distance from consensus. The IMF decides whether the Chinese Yuan will enter the SDR basket. Recent key voices from the IMF suggest that the Yuan will pass its exam. As such, the decision is not so important, but it is, of course, a highly symbolic gesture that gives the yuan international prestige and recognizes its increasingly important role in international trade and FX trading. It won't immediately impact global core bonds. However, if the dollar (for other reasons) continues to appreciate, Chinese authorities might at some point be tempted to devalue the yuan to support Chinese growth. This could send deflationary impulses towards the global economy, favouring global bonds. However, it is way too early to speculate on it now.



Bund future (orange) & Eurostoxx (black): Technical inspired test of contract high for the Bund ahead of the ECB meeting, but rally not sustained



Gold cruises through the cycle lows, suggesting that the downside is not exhausted. Prospect of higher US rates main fundamental reason

R2	160,62	-1d
R1	158,78	
BUND	158,45	0,1200
S1	157,15	
S2	154,81	

Only Spanish and French auctions this week

This week's EMU bond supply is low with only Spain and France tapping the market on Thursday. The French debt agency concludes this year's issuance by tapping three off-the-run OAT's (2.25% May2024, 4.75% Apr2035 & 4.5% Apr2041) for €3.5-4.5B. The Spanish treasury sells the on the run 5-yr Bono (1.15% Jul2020), 10-yr Obligacion (2.15% Oct2025) and 15-yr Obligacion (1.95% Jul2030). Today, the Treasury announces the intended volume. This week's auctions will be supported by a €14.5B Italian redemption.

Today: Scaling back of long positions into ECB meeting?

Overnight, most Asian stock markets trade negative with volatile Chinese indices slightly underperforming. The US Note future trades with a marginal downward bias, but we expect a neutral opening for the Bund.

Today, the eco calendar contains German inflation data and US Chicago PMI. Ahead of Thursday's ECB meeting, we don't expect these figures to impact trading. We expect substantial policy easing, but bond markets are already quite dovish positioned. **Therefore, we think that some scaling back of Bund long positions will be considered in the run-up to Thursday's meeting.** The proximity of key resistance (158.60/78 for the Bund; 0.42% 10-yr yield) could trigger some correction as well. **In the US, Treasuries might take off with a slow start given the back-loaded calendar (Yellen speech on Wednesday, payrolls on Friday).** We hold our sell-on-upticks approach.



German Bund: scaling back of long positions going into the ECB meeting?



US Note future (March contract!!): keep sell-on-upticks strategy.

Currencies

EUR/USD holding near the recent lows

EUR/USD holding with reach of the recent lows

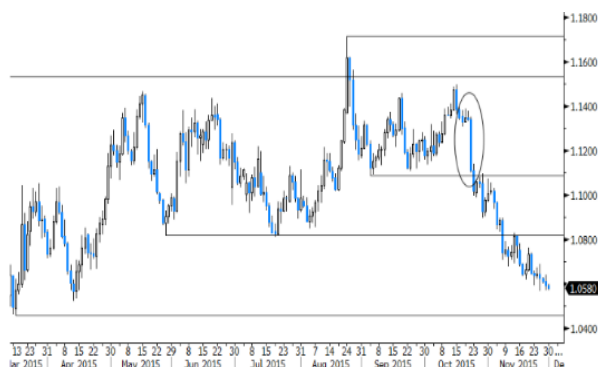
Sentiment on risk (and in commodities) remains fragile.

The euro remains in the defensive. USD/JPY is holding up well

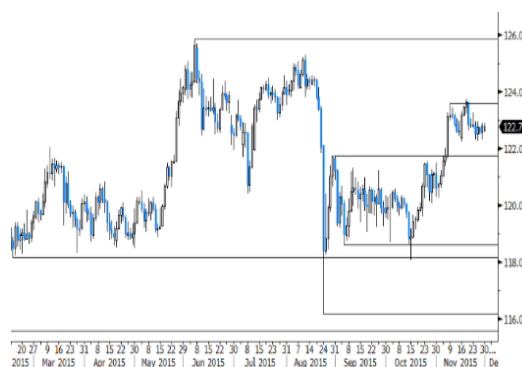
R2	1,083	-1d
R1	1,0763	
EUR/USD	1,0581	-0,0047
S1	1,0566	
S2	1,0521	

On Friday, the price pattern of the previous days continued. The euro gained temporary from a risk-off context in China. However, European yields held near the recent lows and European equities performed reasonably well. Euro selling ahead of the ECB decision remained the preferred 'by default strategy'. The dollar also held up reasonably well. EUR/USD closed the week at 1.0593 (vs 1.0610 on Thursday). USD/JPY ended the session 122.80 (from 1.2257).

This morning, Asian markets are still in risk-off. Investigations in the Chinese Brokerage sector are causing some additional volatility. Sentiment on commodities remains fragile. Japanese eco data were mixed. Construction orders and industrial production were weak. Retail sales were OK. The impact on the yen was again limited. Commodity currencies like the Aussie dollar are under slight pressure, but near AUD/USD 0.72, the losses are contained. For now, the risk-off sentiment doesn't really help the yen. USD/JPY is little changed in the 122.75 area. EUR/USD is holding within reach of the recent lows in the 1.0585 area. Later today, the IMF will decide on the incorporation of the yuan in the IMF SDR. The IMF staff recently gave a positive advices. So, a positive decision is highly likely. We don't expect any direct impact global currency trading.



EUR/USD: holding near the recent lows



USD/JPY: little affected by Asian risk-off sentiment

Today, German CPI data and the Chicago PMI are in focus

We don't expected recent trends to change in a profound way going into the ECB meeting

Today, the calendar is moderately interesting. In Europe, the German inflation data take centre stage. The consensus expects a slight rise of 0.1% M/M and 0.3% Y/Y (from 0.2% Y/Y). In theory, the report might be interesting just days ahead of the ECB decision on more stimulus. However, there is probably a big upward surprise needed for markets to question the scenario of big ECB stimulus. In the US, the Chicago PMI, the pending home sales and the Dallas Fed manufacturing activity index will be published. For the Chicago PMI, a limited setback from 56.2 to 54.00 is expected. Other recent survey evidence from the US suggests a downside risk of this indicator.

On Friday, the risk-off sentiment from China/Asia had little impact on European markets. The anticipation of further ECB stimulus blocked to the topside of the euro. With Thursday's ECB meeting coming closer, investors might take some profit on the recent EMU bond rally. This can have limited positive spill-over

effects on the euro, or at least slow the decline of the single currency. Nervousness/volatility in EUR/USD might rise a bit. However, we don't expect currency investors to really row against an expected aggressive ECB easing. Any euro upticks should stay temporary and relatively limited. **USD/JPY** is holding remarkably resilient even as sentiment, especially in Asia, turns less positive.

Topside of the euro looks well protected going into the ECB policy decision

From a technical point of view, EUR/USD dropped below the 1.0809 support and reached the targets of the short-term multiple top formation in the low 1.0715 area. With policy divergence between the Fed and the ECB still in place, we don't row against the EUR/USD downtrend, but the pace of the USD rally may slow. The post ECB QE lows in EUR/USD (1.0521/1.0458 area) are obvious targets on the charts. We maintain a EUR/USD sell-on upticks strategy for a retest of the cycle lows. For USD/JPY, the cycle tops in the 125.28/86 area came on the radar, but a test looks difficult short-term.

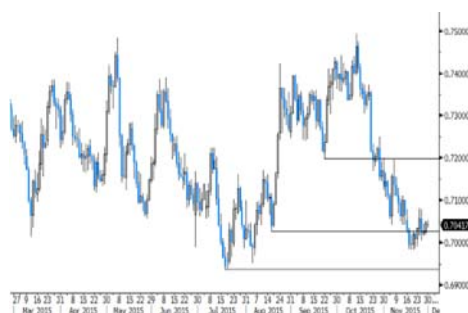
R2	0,725	-1d
R1	0,7197	
EUR/GBP	0,7039	-0,0003
S1	0,6982	
S2	0,6936	

Cable testing the 1.5027 support

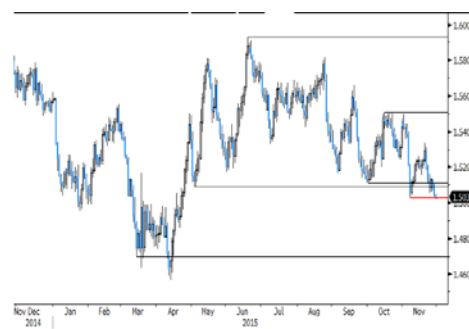
On Friday, UK consumer confidence and Nationwide House prices were weaker than expected. The UK Q3 GDP was confirmed at 0.5% Q/Q and 2.3% Y/Y. Consumption remained the key driver of growth (0.8% Q.Q). The balance between export and import growth was more negative than expected. Cable declined further after the publication of the GDP data. However, this decline occurred in lockstep with the intraday decline of EUR/USD. The pair came close to the 1.5027 support, but a real test/break didn't occur yet. Cable closed the session at 1.5036 (from 1.5102). The details of the UK Q3 GDP also didn't help sterling against a broadly weaker euro. EUR/GBP basically hovered sideways in the 0.7025/50 area, well off the recent lows in the 0.6982 area. The pair ended the week at 0.7046 from 0.7025.

This morning, sterling is really testing the 1.5027 support. Later today, the UK money supply and lending data will be published. Of late lending activity data were a bit volatile but the trend remained constructive. However, given recent market sentiment, the data will probably have to be much better than expect to really support sterling. Euro weakness and a lack of visibility on the BoE rate hike intentions are currently weighing on sterling against the dollar. During the weekend, BoE's Vlieghe talked rather dovish. So, day-to-day sentiment on sterling might remain cautious

Looking at the broader picture, the soft ECB stance pushed EUR/GBP lower in the longstanding sideways range. The pair cleared the 0.7196 support after the October FOMC meeting. We maintain a sell-on-upticks approach for EUR/GBP as euro weakness prevails. Next key support is this year's low at 0.6936. The correction low at 0.6982 has become an interim support.



EUR/GBP: off the recent lows



Cable: testing the recent lows

Calendar

Monday, 30 November		Consensus	Previous
US			
15:45	Chicago Purchasing Manager (Nov)	54.0	56.2
16:00	Pending Home Sales MoM/NSA YoY (Oct)	1.0%/4.5%	-2.3%/2.5%
16:30	Dallas Fed Manf. Activity (Nov)	-10.0	-12.7
Japan			
00:50	Industrial Production MoM/YoY (Oct P)	A: 1.4%/-1.4%	1.1%
00:50	Retail Trade YoY (Oct)	A: 1.8%	-0.2%
00:50	Retail Sales MoM (Oct)	A: 1.1%	0.7%
00:50	Dept. Store, Supermarket Sales (Oct)	A: 2.9%	1.7%
06:00	Housing Starts YoY (Oct)	A: -2.5%	2.6%
06:00	Construction Orders YoY (Oct)	A: -25.2%	6.7%
UK			
10:30	Net Lending Sec. on Dwellings (Oct)	3.4b	3.6b
10:30	Mortgage Approvals (Oct)	69.9k	68.9k
10:30	Money Supply M4 MoM/YoY (Oct)	--/--	-1.0%/-0.6%
Germany			
	CPI Baden Wuerttemberg MoM/YoY (Nov)	--/--	0.1%/0.3%
09:00	CPI Saxony MoM/YoY (Nov)	--/--	0.0%/0.2%
10:00	CPI Brandenburg MoM/YoY (Nov)	--/--	-0.1%/-0.1%
10:00	CPI Hesse MoM/YoY (Nov)	--/--	0.0%/0.2%
10:00	CPI Bavaria MoM/YoY (Nov)	--/--	0.2%/0.5%
10:30	CPI North Rhine Westphalia MoM/YoY (Nov)	--/--	0.0%/0.2%
14:00	CPI EU Harmonized MoM/YoY (Nov P)	0.1%/0.3%	0.0%/0.2%
Italy			
11:00	CPI EU Harmonized MoM/YoY (Nov P)	-0.2%/0.4%	0.5%/0.3%
12:00	PPI MoM/YoY (Oct)	--/--	-0.2%/-3.8%
Belgium			
15:00	GDP SA QoQ/YoY (3Q F)	--/--	0.2%/1.3%
Spain			
09:00	Retail Sales YoY (Oct)	--	4.4%
09:00	Retail Sales SA YoY (Oct)	4.3%	4.3%
10:00	Current Account Balance (Sep)	--	1.7b
Sweden			
09:30	GDP QoQ/ WDA YoY (3Q)	0.4%/3.4%	1.1%/3.3%
Events			
US - IMF to decide on adding China's Yuan to reserve currency basket			
Japan - BoJ Governor Kuroda gives speech to business leaders			

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,23	0,02	US	0,93	0,00	DOW	17798 17798,49
DE	0,46	-0,02	DE	-0,41	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,76	-0,03	BE	-0,33	-0,01	NIKKEI	19747 19747,47
UK	1,82	-0,03	UK	0,58	-0,01	DAX	11293,76 11293,76
JP	0,31	0,00	JP	0,00	0,00	DJ euro-50	3489 3488,99

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,138 0,001
3y	-0,066	1,225	1,114	Euribor-1	-0,16	0,00	Libor-1 USD	0,50 0,50
5y	0,160	1,569	1,395	Euribor-3	-0,11	-0,01	Libor-3 USD	0,57 0,57
10y	0,823	2,071	1,816	Euribor-6	-0,04	-0,01	Libor-6 USD	0,73 0,73

Currencies		-1d	Currencies		-1d	Commodities	CRB	GOLD	BRENT
EUR/USD	1,0581	-0,0047	EUR/JPY	129,89	-0,16		185,7001	1055,46	44,71
USD/JPY	122,79	0,44	EUR/GBP	0,7039	-0,0003	-1d	0,00	-11,64	-0,52
GBP/USD	1,5025	-0,0062	EUR/CHF	1,0912	0,0040				
AUD/USD	0,7187	-0,0025	EUR/SEK	9,2547	-0,02				
USD/CAD	1,3383	0,0073	EUR/NOK	9,2094	0,00				

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