



## Sunrise

Wednesday, 25 November 2015

### Rates: Minor upward bond bias despite surprises

Core bonds couldn't really profit from the military incident (jet shot down) above Turkey, neither from bad US consumer confidence. Today, technical elements may support bonds to some, likely limited, extent. Overall the shadow of Thanksgiving holiday will keep trading subdued.

### Currencies: Global uncertainty weighs slightly on the dollar and sterling

The incident between Russia and Turkey triggered a risk-off reaction. The dollar and sterling ceded ground. The commodity currencies outperformed. EUR/USD regained moderately ground, but the global picture didn't change. Today, there are plenty of US data, but sentiment on risk probably remains the key factor. We don't expect the USD correction to go very far.

### 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	↗

- Yesterday, **European equities** closed the trading session deeply in the red due to the geopolitical tension, with indices losing up to -1.7%. **US equities** were less influenced by the matter and rebounded from their weak open. Overnight, **Asian equities** are trading mixed with maybe some influence from the geopolitical tensions.
- **The Chinese consumer are feeling more positive**, as the Westpac MNI **consumer sentiment indicator rebounds from a record low** 109.7 in October to 113.1 in November.
- **Argentina's Credit outlook was raised to positive by Moody's**, as the president-elect **Mauricio Macri is expected to implement changes** to boost the country's credibility.
- **The BoJ Minutes from the October 30 meeting show that governors are more keen to maintain stability rather than shake up things**. Policy makers saw reasons to hold off extra stimulus, such as consumer resilience and an improving labour market. BoJ expects to reach its inflation target in H2 of 2016.
- **Commodities** were impacted by the Turkey-Russia tension, as **Brent Crude rose from 45.2\$/barrel to 46.36\$/barrel**, the highest level in almost two weeks. **Gold** also saw an uptick of 0.9%. Other metal prices rose more modestly.
- Today the eco-calendar is dominated by US data with the **Personal income and PCE for October**. The **durable goods orders** for October, **the jobless claims** from last week, the **Markit services PMI**, **New home sales** for October and the **Univ. of Michigan Consumer sentiment** indicator are being released today.
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# Rates

## Minor upward bond bias despite surprises

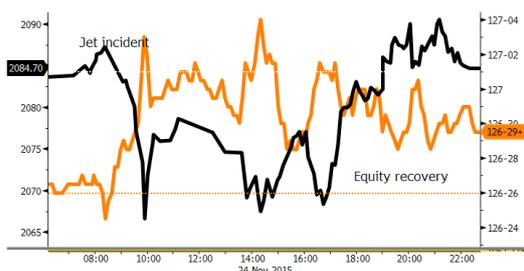
	US yield	-1d
2	0,9343	-0,0079
5	1,661	-0,0189
10	2,2306	-0,0141
30	2,9912	-0,0072

	DE yield	-1d
2	-0,3750	0,0140
5	-0,1348	0,0131
10	0,5087	-0,0094
30	1,3246	0,0148

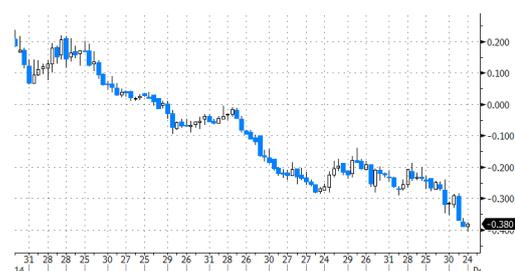
Global core bonds profited only slightly from negative risk sentiment on stock markets, nurtured by Turkish Air Force gunning down a Russian jet, as European investors still reeled from Monday's sell-off and as markets concluded soon that the incident would not escalate the relationship between Russia and NATO to a dangerous level. Eco data comprised a strong German IFO business sentiment survey, in line US Q3 GDP, a much weaker than expected US consumer confidence and a marginally weaker Richmond Fed business sentiment. However, these eco releases attracted only a lukewarm, temporary, reactions. The **US 5-yr Note auction** was decent (see below). A rebound in oil/commodity prices and a recovery of US equities dampened the positive effect of the earlier risk-off sentiment. **In a daily perspective, changes on the US yield curve were less than 1 bp.** The **German yield curve bear flattened** with the 2-yr yield up 1.3 bps and the 10-yr yield down 1.2 bps. The 2- and 5-yr yields set an new intraday record low at -0.41% and -0.17% respectively. **On intra-EMU bond markets**, 10-yr yield spreads versus Germany were nearly unchanged.

## Lots of US eco data before Thanksgiving holiday

October **personal income** is expected to have increased a strong 0.4% M/M, following an increase of 0.1% M/M in September, due to stronger AHE and strong payrolls growth. **That's why we see some upside risks to the consensus.** **Personal spending (PCE)** is expected to have increased 0.3% M/M in October, following a 0.1% M/M increase in September. **The Core PCE** is expected to remain stable at 0.1% M/M, but rise slightly on an annual basis from 1.3% Y/Y to 1.4% Y/Y. **The real personal spending** is expected to have grown 0.2% M/M, similar to September. Also on the agenda are **the October durable goods orders**, which are expected to have increased by 1.6% M/M, following a decline of -1.2% M/M. **Excluding transportation**, the durable goods orders are expected to have increased 0.3% M/M. We see **some upward risks** to durable goods as orders were heavily influenced by weakness related in civilian aircraft orders last month. The weekly **initial jobless claims** are expected to have stabilized around 270k. **The Markit US services PMI** is expected to improve from 54.8 to 55.1 in November. We side with consensus, even as the manufacturing survey disappointed. Lastly, **the University of Michigan consumer confidence indicator** for November is expected to remain stable at 93.1. The upcoming holiday period, with current low gasoline prices points to upside risks, but yesterday's extremely weak Consumer Confidence makes us side with consensus.



T-note future (orange) & S&P future (orange): Volatile session with tepid bond reaction to bond friendly factors



2yr German yield reaches new low at -0.40%.

R2	160,62	-1d
R1	158,6	
<b>BUND</b>	<b>157,7</b>	0,0900
S1	156,91	
S2	154,81	

## Germany, Portugal and US tap market

**The German Finanzagentur taps the on the run 10-yr Bund today (€3B 1% Aug2025).** In recent history, Bund auctions went very sloppy. Total bids averaged only €3.7B at the previous 4 Bund auctions and they reached an historical low last month (€2.97B). So overall, we expect weak demand today as well despite the low amount on offer. **The Portuguese treasury sells the on the run 10-yr PGB (€0.75-1B 2.875% Oct2025).** The bond didn't really cheapen in ASW-spread terms and trades rich at the longer end of the Portuguese yield curve. Together with current political instability, this could hamper demand. The Portuguese treasury will use the proceeds of the auction as pre-funding for next year, as it is already fully funded for this year. **In the US, the Treasury continued its end-of-month refinancing operation yesterday with a sloppy \$13B 2-yr FRN auction and a decent \$35B 5-yr Note auction.** The latter ended with a small tail, a good bid cover and solid buy-side takedown figures. Today, the US Treasury holds a \$29B 7-yr Note auction. Currently, the WI trades around 2%.

### Today: Technically inspired gains for US Treasuries

**Overnight**, most Asian stock markets trade negative with China outperforming. Minutes of the Oct 26 Fed discount rate meeting show that 9 out of 12 governors requested a discount rate hike (vs. 8 at the previous meeting), but the request wasn't honoured. It's the latest sign that the Fed moves closer to tightening policy, but there was no negative reaction on the US Treasury market.

**Today**, the eco calendar heats up in the US. We believe that the data will be in line with expectations or even better (including durable goods). That's a negative for US Treasuries, but we expect that the impact of stronger data will be dampened by the approaching long weekend in the US (Thanksgiving/Black Friday). End-of-month extension buying and the end of the Treasury's financing operation are two other technical factors which support US Treasuries. Risk sentiment on equity markets is a wildcard.

**Technically, the fundamentals (ECB) and technicals (uptrend channel) remain bullish for the Bund. We stay cautious though and still consider some lightening of long positions especially if we would test the highs (Bund). We see, as before, little value when German 10-yr yield is below 0.50%.** The T-Note future tested key 126-16 support, but no sustained break occurred. The bears probably won't go immediately for another test. Therefore, we hold our sell-on-upticks for US Treasuries or even lightening long positions straight away.



German Bund: correction suggests that upside may have become limited



US Note future: indecisiveness around 126-16 support.

# Currencies

*Dollar falling prey to modest profit taking as sentiment turns risk-off.*

R2	1,083	-1d
R1	1,0763	
EUR/USD	1,0669	0,0042
S1	1,0521	
S2	1,0458	

*Asian market showed guarded reaction to yesterday's Risk-off sentiment*

*The commodity currencies outperform. The dollar is slightly in the defensive*

*There are plenty of eco data on the agenda in the US.*

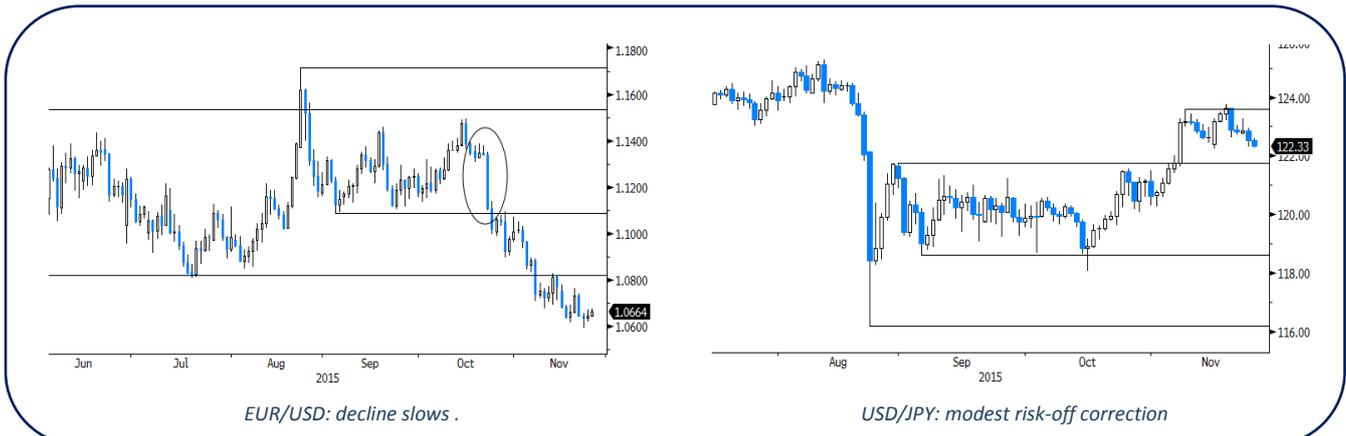
*We expect the USD correction to stay modest*

## Risk-off triggers modest USD correction

On Tuesday, markets turned into risk-off modus due to the incident between Russia and Turkey. This risk-off trade blocked the rise (in short-term) US yields and triggered a moderate profit taking move in the dollar. However, for now it's just that: a limited setback on recent USD strength. The dollar correction even slowed later in the session as US equities reversed earlier losses. EUR/USD closed the session at 1.0643 (from 1.0636). The losses in USD/JPY were a bit more substantial. The pair ended the day at 122.53 (from 122.84).

**Overnight**, most Asian indices trade mostly with modest losses. The fall-out from the Turkey/Russia incident remains modest. China lifting some restrictions on brokerage activity has no negative impact on Chinese equities. Chinese indices even slightly outperform. **The tensions between Russia and Turkey have a mixed impact on commodities.** The likes of oil and gold remain well bid. The picture for industrial commodities is more mixed. Even so, commodity currencies like the Aussie dollar, the kiwi dollar and the Canadian dollar gain further ground against the USD. USD/JPY is under moderate pressure due to a cautious risk-off sentiment. The pair trades currently in the 122.35 area. The BOJ minutes kept a balanced tone and suggests that the bank is in no hurry to ease policy further. **EUR/USD set a minor new ST correction top at 1.0675 this morning**, but is currently again trading in the 1.0660 area.

**Today**, there are few eco data in Europe but the calendar in the US is well packed. Several eco releases are published earlier ahead of Thanksgiving/Black Friday. We keep an eye at the spending in income data (and the core PCE), the durable orders and Jobless claims. A big negative surprise might be a slightly negative for the dollar. **However, we doubt that today's data will question the scenario of a Fed rate hike.** So, the (negative) impact on the dollar should be limited. Global risk sentiment and, to a lesser extent, the performance of commodities, will set the tone for USD trading. Uncertainty won't disappear at once, but it looks that the Russia/Turkey tensions will not spiral out of control. This might limit a further correction of the dollar. **Of late, currency markets continued to play the divergence trade.** A lot of good news was already discounted for the dollar. So, a correction was overdue. The Turkey/Russia incident provided a good excuse for a correction/slowdown of the USD rally. We look out whether this correction will continue today. For now, we don't expect it to go very far.



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 are coming on the radar, but a test looks difficult short-term.

R2	0,725	-1d
R1	0,7197	
<b>EUR/GBP</b>	<b>0,706</b>	0,0038
S1	0,6982	
S2	0,6936	

### Risk-off and neutral BoE stance weigh on sterling

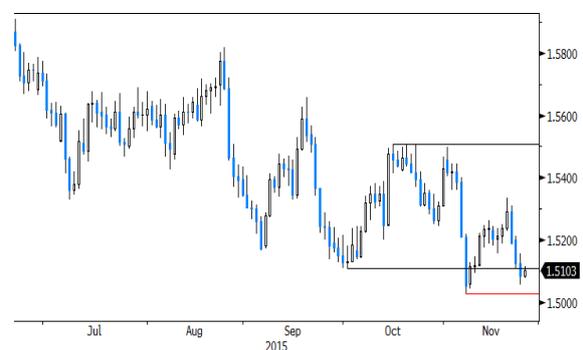
On Tuesday the focus for sterling trading was on the BoE testimony before a Treasury committee. However, the hearing didn't bring much new for markets. Carney didn't give specific details on when he expected the BoE to raise rate. Other members kept their usual bias (Forbes on the hawkish side; Haldane on the dovish side). CBI reported sales were substantially weaker than expected, but there was no reaction of sterling. Still the UK currency traded with a negative bias against. The wait-and-see stance of the BoE caused some profit on sterling longs against the euro. The risk-off sentiment (Russia-Turkey incident) was more supportive for the euro (and to a lesser extent for the dollar) and a negative for sterling. EUR/GBP closed the session at 0.7056 (from 0.7033). Cable ended the day at 1.5084 (from 1.5124).

Today, only the BBA loans of home purchases will be published. A round to 45500 is expected. Any impact on sterling will only be of intraday significance, at best. Yesterday, a neutral BoE stance, a risk-off context and some Brexit fears weighed on the UK currently. Question is whether/how far this correction will go. Cable might remain vulnerable. For EUR/GBP, we assume that the correction won't go very far with the ECB meeting looming in the horizon.

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. A retest occurred after a soft BoE inflation report, but the test was rejected. 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: correction time



Cable: nearing the 1.5027 correction low

# Calendar

Wednesday, 25 November		Consensus	Previous
<b>US</b>			
14:30	<b>Personal Income (Oct)</b>	0.4%	0.1%
14:30	<b>Personal Spending (Oct)</b>	0.3%	0.1%
14:30	Real Personal Spending (Oct)	0.2%	0.2%
14:30	PCE Deflator MoM/YoY (Oct)	0.2%/0.3%	-0.1%/0.2%
14:30	PCE Core MoM (Oct)	0.1%/1.4%	0.1%/1.3%
14:30	<b>Durable Goods Orders (Oct P)</b>	1.7%	-1.2%
14:30	<b>Durables Ex Transportation (Oct P)</b>	0.3%	-0.4%
14:30	Cap Goods Orders Nondef Ex Air (Oct P)	0.2%	-0.3%
14:30	Cap Goods Ship Nondef Ex Air (Oct P)	-0.3%	0.5%
14:30	<b>Initial Jobless Claims</b>	270k	271k
14:30	<b>Continuing Claims</b>	2161k	2175k
15:00	FHFA House Price Index MoM (Sep)	0.4%	0.3%
15:00	House Price Purchase Index QoQ (3Q)	--	1.2%
15:45	<b>Markit US Composite PMI (Nov P)</b>	--	55.0
15:45	<b>Markit US Services PMI (Nov P)</b>	55.1	54.8
16:00	New Home Sales (Oct)	500k	468k
16:00	New Home Sales MoM (Oct)	6.8%	-11.5%
16:00	U. of Mich. Sentiment (Nov F)	93.1o ch	93.1
16:00	U. of Mich. Current Conditions (Nov F)	--	104.8
16:00	U. of Mich. Expectations (Nov F)	--	85.6
<b>Japan</b>			
00:50	PPI Services YoY (Oct)	A: 0.5%	0.6%
06:00	Small Business Confidence (Nov)	A: 49.9	48.7
<b>China</b>			
02:45	Westpac-MNI Consumer Sentiment (Nov)	A: 113.1	109.7
<b>UK</b>			
10:30	BBA Loans for House Purchase (Oct)	45500	44489
<b>France</b>			
08:45	Consumer Confidence (Nov)	95	96
<b>Italy</b>			
10:00	Industrial Orders MoM/NSA YoY (Sep)	--/--	-5.5%/2.1%
10:00	Industrial Sales MoM/WDA YoY (Sep)	--/--	-1.6%/-2.4%
11:00	Retail Sales MoM/YoY (Sep)	0.5%/1.4%	0.3%/1.3%
<b>Spain</b>			
09:00	PPI MoM/YoY (Oct)	--/--	-0.9%/3.6%
<b>Sweden</b>			
09:00	Economic Tendency Survey (Nov)	108.5	108.3
09:30	PPI MoM/YoY (Oct)	--/--	-0.3%/-1.4%
<b>Events</b>			
<b>Japan - Cabinet Office Monthly Economic Report for November</b>			
00:50	<b>Japan - BoJ Minutes for October 30 meeting</b>		
11:03	Sweden - Sek 4bn 1% Nov 2026 bond		
11:10	Italy - Auctions CTZ/BTPei		
11:30	<b>Germany - Eur 3bn 1.0% Aug 2025 Bund</b>		
11:30	<b>Portugal - Eur 0.75-1bn 2.875% Oct 2025 bond</b>		
17:30	<b>US - Usd 29bn 7-year note</b>		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,23	-0,01	US	0,93	-0,01	DOW	17812,19
DE	0,51	-0,01	DE	-0,38	0,01	NASDAQ	19848
BE	0,82	0,00	BE	-0,29	0,01	NIKKEI	19847,58
UK	1,87	0,00	UK	0,60	0,01	DAX	10933,99
JP	0,31	-0,01	JP	0,00	0,00	DJ euro-50	3410

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,139
3y	-0,045	1,224	1,132	Euribor-1	-0,16	0,00	Libor-1 USD	0,51
5y	0,193	1,572	1,410	Euribor-3	-0,10	0,00	Libor-3 USD	0,57
10y	0,853	2,077	1,821	Euribor-6	-0,03	-0,01	Libor-6 USD	0,73

Currencies		-1d	Currencies		-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,0669	0,0042	EUR/JPY	130,46	0,06	-1d	183,4305	1078,64	46,34
USD/JPY	122,29	-0,43	EUR/GBP	0,706	0,0038		-0,30	7,44	1,29
GBP/USD	1,5105	-0,0027	EUR/CHF	1,0833	0,0011				
AUD/USD	0,7271	0,0071	EUR/SEK	9,2557	-0,01				
USD/CAD	1,3278	-0,0066	EUR/NOK	9,1992	0,00				

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