



Sunrise

Friday, 09 October 2015

Rates: Soft Minutes, thin calendar

FOMC Minutes revealed that Fed policy makers remain in limbo about a 2015 rate hike. An initial spike higher on the US Treasury market was rapidly reversed in a risk-on environment where also commodities continue their rebound. Today's calendar is empty apart from Fed speakers. US markets are closed on Monday for Columbus Day

Dollar little affected by 'soft' Fed Minutes

Yesterday, the dollar lost slightly ground but both EUR/USD and USD/JPY still held very tight ranges. The context of soft central bank speak combined with a risk-on context failed to give a clear signal for USD trading. So, more sideways trading might be on the cards. Sterling is moving slightly higher even as the BOE turned also softer on inflation.

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	→

- **US equities** ended yesterday with nice profits, mainly profiting from the release of soft FOMC minutes. Overnight, **Asian equities** are currently trading nicely in the green, noting at the highest level since mid-September.
- **The September FOMC minutes show that the Federal reserve officials** were **feeling good about the U.S. economy**, but remained **uneasy with low inflation**. Therefore, doubts about a rate hike in 2015 fuelled global equities.
- The global **commodity rally** seem to stay in full throttle, with the **WTI crude breaking the 50\$/barrel** mark and **Brent crude almost at 54\$/barrel**. On the metals market, **Zinc** prices surged (+4%) after Glencore announced output slashes. Copper also trades higher (+2.5%).
- **Today** the eco-calendar remains rather thin with **industrial production data for August coming from Italy and Spain**. Interesting to watch is the **IMF meeting in Lima**. Also on the agenda is are speeches by **Fed Lockhart and Evans**

Rates

Bunds and US Treasuries part ways in quiet session.

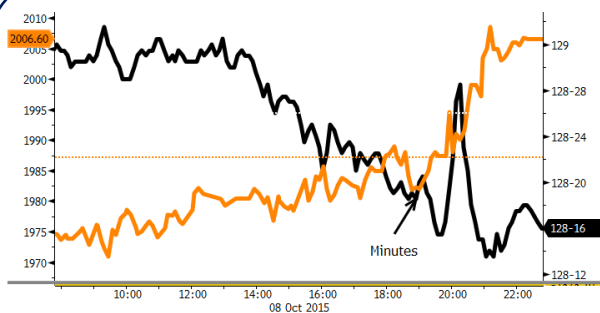
	US yield	-1d
2	0,6409	0,0319
5	1,4011	0,0570
10	2,1022	0,0601
30	2,9357	0,0616

	DE yield	-1d
2	-0,2500	0,0010
5	-0,0040	0,0050
10	0,6000	0,0240
30	1,3620	0,0430

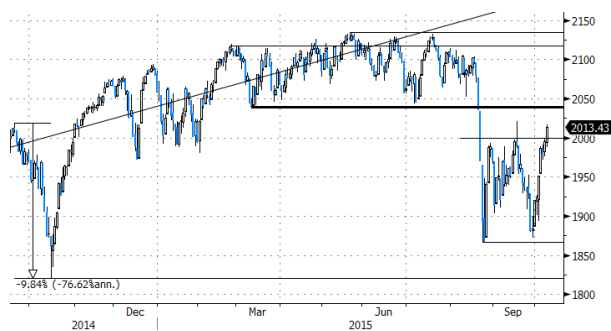
Core bonds under pressure in US session

Global core bonds had a very quiet European session devoid of economic news. Initial gains due to a mild risk-off sentiment in Asia were safeguarded. During the US session, US Treasuries came under some downward pressure ahead of the US 30-yr Note auction (see below) and the FOMC minutes. US Treasuries made a knee-jerk reaction (higher), before closing near pre-FOMC levels. Equities rallied higher though, with S&P taking out first key resistance. In a daily perspective, given the higher opening, the German curve shifted marginally lower with yield changes limited to slightly more than 1 bp. In the US, the curve bear steepened with yields 0.8 bps (2-yr) to 4.5 bps (30-yr) higher.

Today, the eco-calendar is fairly empty with only the French and Italian production data (of secondary) interest. The IMF meetings may bring some headlines as both central bankers and other policymakers will attend



T-Note future (black) & S&P future (orange) (intraday): FOMC Minutes push equities higher, knee jerk reaction Treasuries



S&P: above first resistance 2000. Good signal. Next target 2040.

FOMC afraid to cross the Rubicon

FOMC confident in positive outlook, but...

... hesitates to act and decides to wait for more info

Is window to normalize closing?

The FOMC Minutes got quite some attention. Fed governors felt pretty good about economic developments. Unemployment drops faster than expected and underutilization of labour diminished further (some even believe it's gone). Consumer spending picks up and housing activity is encouraging. Almost all participants remained reasonable confident that inflation would go up towards target. Why didn't the FOMC start normalizing policy in this context? According to the Minutes, uncertainty about developments abroad and the impact on the US economy (via risks for stronger dollar, less exports) was the main reason. Risks to the outlook remain nearly balanced, but the Committee wants to be prudent and wait for additional information before raising the FF rate. Many participants said the improvement in labour market conditions met or would meet soon one of the conditions for normalization. "But some indicated that their confidence that inflation would gradually return to target had not increased." Most participants agreed that their confidence that inflation would move to the target would increase as labour market conditions improved. Many expected those conditions to be met later this year although several members were concerned about downside risks to the outlook for real activity and inflation.

Summarizing, the Committee decided to hold off a lift-off because of risks to economic and inflation outlook stemming from developments abroad. **Given recent developments, conditions for a rate hike are not fulfilled for the October meeting and likely not for the December meeting either.**

R2	160,62	-1d
R1	157,67	
BUND	156,13	0,0000
S1	153,5	
S2	152,75	

Solid 30-yr Bond auction

The US Treasury concluded its end-of-month refinancing operation with a solid \$13B 30-yr Bond auction. The auction stopped a little through the 1:00 PM bid side and the bid cover was well above average. Buy side demand was very good overall. The auction followed a plain vanilla 3-yr Note auction on Tuesday and a strong 10-yr Note auction yesterday.

Today: Atlanta Fed Lockhart wildcard

Overnight, Asian stocks markets traded up to 2% higher following the recovery on commodity markets. Soft FOMC Minutes triggered a late session rally on WS. The US Note future spiked temporary higher, but rapidly erased gains in a risk-on environment. Overnight, the T-Note trades sideways.

Today's eco calendar is empty apart from two Fed speakers. Both Chicago Fed Evans and Atlanta Fed Lockhart are currently voting members. Evans is outspoken dovish and will argue to put off the lift-off to 2016. Lockhart is more of a centrist governor. His comments could have most market impact. If he sticks with a 2015 rate hike, that's a negative for US Treasuries. It would put the telly on voting governors in favour of a rapid hike at 3 (Lacker, Williams). **Ahead of Lockhart's speech, risk sentiment and commodity markets are the key trading themes. Overnight strength suggests some minor weakness, though in the US it could be offset by the long weekend (Columbus Day on Monday) and the end of the refinancing operation.**

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: cautious sell-on-upticks approach

Currencies

Dollar holds tight ranges against the euro and the yen.

Fed minutes have only a limited and temporary impact on the US currency

R2	1,1714	-1d
R1	1,146	
EUR/USD	1,1286	0,0031
S1	1,1087	
S2	1,1017	

Dollar holds stable even as risk sentiment stays constructive

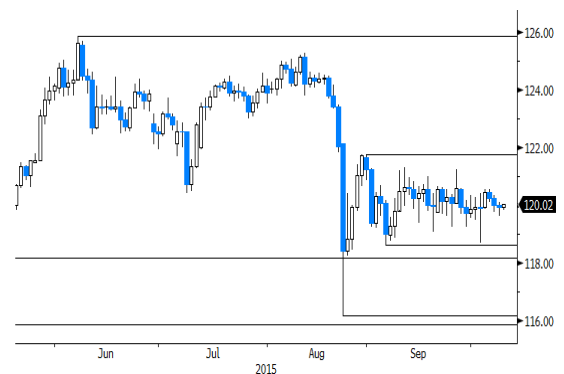
Dollar little affected by 'soft' Fed minutes

On Thursday there was initially no relevant news to guide USD trading. The dollar lost temporary ground early in Europe as the equity rally slowed. However, equities soon found their composure, putting a floor under the dollar. EUR/USD and USD/JPY returned soon to respectively the mid-1.1250 and the 120 area. Late in the session, the Fed published the minutes of the previous FOMC meeting. The Fed stayed optimistic on the US economy, but is worried about the impact of global conditions on the US economy. Several members were also worried that inflation would be dragged lower by oil prices and by the high value of the dollar. **The reaction on markets was divergent.** Equities rallied, confirming the soft stance of the Minutes. The dollar lost temporary ground but returned soon close to pre-minutes' levels. EUR/USD closed the session at 1.1276, up from 1.1237. USD/JPY ended the day at 119.93 (from 120.01). So, the dollar traded marginally lower in a daily perspective.

Overnight, Asian equities join the post-Minutes' rally yesterday evening in the US. As was mostly the case earlier this week, the impact on the likes of EUR/USD and USD/JPY is again limited. USD/JPY trades again very close to the 120 level; EUR/USD is changing hands in 1.1285 area. The rebound of global commodities continues to support the commodity currencies. The rouble, the Brazilian real, the Norwegian Krone, the Canadian dollar and the Aussie dollar all extend their comeback. AUD/USD nears the 0.73 big figure.



EUR/USD holds tight range



USD/JPY hovers around the 120 pivot

Tion

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

Today, the eco calendar is again thin in Europe and the US. There are only eco data from individual countries in Europe. In the US, the import prices and the wholesale inventories will be published. Usually, these data have hardly any impact on currency trading. **Maybe low import prices could be partially because of the strong dollar.** Even so, we don't expect a big reaction of the USD to the data. So, global factors will once again set the tone for currency trading. Going into the start of the European session, the situation looks little different from what it was earlier this week. Risk sentiment remains constructive with both equities and commodities showing upside momentum. Until now, this context didn't give a clear guidance for USD trading.

Both EUR/USD and USD/JPY are locked in tight ranges and we see no trigger to break this stalemate right now. **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. EUR/USD 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 becomes less obvious, EUR/USD may return toward the topside of this range.

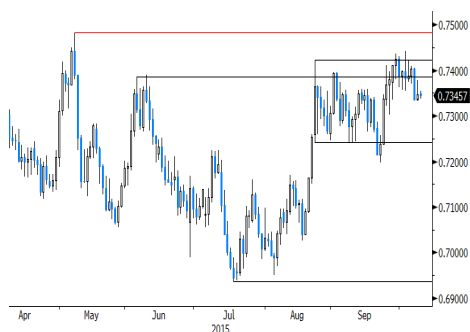
R2	0,7483	-1d
R1	0,7443	
EUR/GBP	0,7345	-0,0003
S1	0,7196	
S2	0,715	

Sterling little changed despite 'soft' BOE minutes

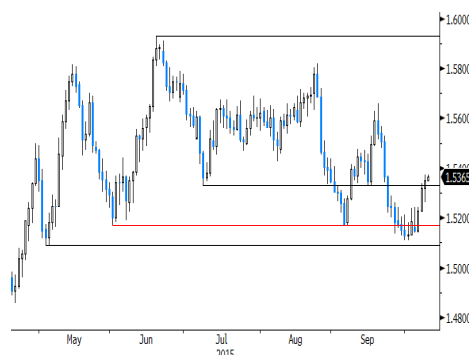
On Thursday, the dollar came temporary under pressure as global risk sentiment turned less positive. In this move EUR/GBP 'jumped' temporary to the 0.7380 area, but the UK currency regained strength going into the BoE policy decision and the publication of the Minutes. **Cable touched an intraday top in the 1.5370 area.** The BoE as expected kept its policy unchanged. The BoE remained rather optimistic on (domestic) growth, but **the tone on inflation softened.** The BoE now expects inflation to stay below 1% until the spring of 2016. Sterling came under modest pressure. EUR/GBP revisited the intraday highs in the 0.7380 area. The decline in cable was more pronounced as the pair dropped well below the 1.53 big figure. Later in the session, cable reversed course again. A slight decline in the dollar after the FOMC minutes pushed the pair back to the intraday highs. Remarkably, in this move cable this time outperformed EUR/USD, pushing EUR/GBP back lower. EUR/GBP closed the session at 0.7348 (from 0.7336).

Today, the UK August construction output and the trade balance data will be published. Markets will keep an eye at the trade data. A substantial improvement after a big deficit in July is expected. We doubt that the figure will be a big support for sterling.

From a technical point of view, EUR/GBP still trades in the upper part of the trading range (0.7423/0.7483). EUR/GBP 0.7423/43 was extensively tested, but no sustained 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.



EUR/GBP holds near the recent highs/range top



Cable rebounds off the recent lows

Calendar

Friday, 9 October		Consensus	Previous
US			
14:30	Import Price Index MoM/YoY (Sep)	-0.5%/-11.2%	-1.8%/-11.4%
16:00	Wholesale Inventories MoM (Aug)	0.0%	-0.1%
16:00	Wholesale Trade Sales MoM (Aug)	--	-0.3%
Canada			
14:30	Unemployment Rate (Sep)	7.0%	7.0%
14:30	Net Change in Employment (Sep)	10.0k	12.0k
16:30	Business Outlook Future Sales (3Q)	--	8.00
UK			
10:30	Construction Output SA MoM/YoY (Aug)	1.0%/1.4%	-1.0%/-0.7%
10:30	Visible Trade Balance GBP/Mn (Aug)	-£9925	-£11082
10:30	Trade Balance Non EU GBP/Mn (Aug)	-£3000	-£3461
France			
08:45	Budget Balance YTD (Aug)	--	-79.8b
08:45	Industrial Production MoM/YoY (Aug)	0.6%/0.2%	-0.8%/-0.8%
08:45	Manufacturing Production MoM/YoY (Aug)	1.0%/0.5%	-1.0%/-1.3%
Italy			
10:00	Industrial Production MoM/WDA YoY (Aug)	-0.3%/1.4%	1.1%/2.7%
10:00	Industrial Production NSA YoY (Aug)	--	2.7%
Norway			
10:00	CPI MoM/YoY (Sep)	0.7%/2.2%	-0.1%/2.0%
10:00	CPI Underlying MoM/YoY (Sep)	0.7%/3.0%	-0.2%/2.9%
10:00	PPI including Oil MoM/YoY (Sep)	--/--	-4.3%/-10.0%
Events			
EMU - ECB Officials Attend IMF Annual Meetings in Lima			
10:00	Austria - ECB's Nowotny Briefs Journalists in Vienna		
15:10	US - Fed's Lockhart Speaks on Economy in New York		
19:30	US - Fed's Evans Speaks on Monetary Policy in Milwaukee, WI		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	2,10	0,06	US	0,64	0,03	DOW	17051 17050,75
DE	0,60	0,02	DE	-0,25	0,00	NASDAQ	for Exch - NQI #VALUE!
BE	0,94	0,03	BE	-0,18	0,00	NIKKEI	18409 18408,80
UK	1,82	0,00	UK	0,57	0,00	DAX	9993,07 9993,07
JP	0,33	-0,01	JP	0,02	0,00	DJ euro-50	3225 3224,96

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,138 0,001
3y	0,124	1,003	1,139	Euribor-1	-0,11	0,00	Libor-1 USD	0,51 0,51
5y	0,357	1,430	1,450	Euribor-3	-0,05	0,00	Libor-3 USD	0,58 0,58
10y	0,966	2,067	1,878	Euribor-6	0,03	0,00	Libor-6 USD	0,75 0,75

Currencies			-1d	Currencies			-1d	Commodity	CRB	GOLD	BRENT
EUR/USD	1,1286	0,0031		EUR/JPY	135,45	0,67			199,5947	1146,95	53,92
USD/JPY	120,01	0,22		EUR/GBP	0,7345	-0,0003		-1d	0,00	4,55	2,51
GBP/USD	1,5368	0,0054		EUR/CHF	1,0903	-0,0031					
AUD/USD	0,7285	0,0112		EUR/SEK	9,2977	0,02					
USD/CAD	1,2963	-0,0101		EUR/NOK	9,1784	-0,06					

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