



## Sunrise

Friday, 13 January 2017

### Rates: US eco data will determine on fate 125-09 resistance

The US Note future tested 125-09 resistance a third time, but a break didn't occur. If this resistance holds after today's US eco data, we think that the US Note future could be in for some sideways trading in the near term between 122-14+ and 125-09.

### Currencies: Strong US data to revive USD rally?

Yesterday, the reflation traded lost momentum. This weighed on the dollar, but the decline remained modest. Today, the US data including the retail sales are expected strong. However, as a lot of good (USD) news is already discounted, a new USD up-leg is no done thing yet. Sterling is in the defensive ahead of a key Brexit-speech of PM May next week.

### Calendar

## Headlines

S&P	↔
Eurostoxx 50	↘
Nikkei	↘
Oil	↑
CRB	↑
Gold	↘
2 yr US	↔
10 yr US	↔
2yr DE	↔
10 yr DE	↘
EUR/USD	↘
USD/JPY	↓
EUR/GBP	↘

- **US equities recovered most intraday losses**, but still closed around 0.2% lower. **Overnight, sentiment on Asian stock markets is mixed** with China underperforming on disappointing trade data.
- **Chinese exports (USD) fell markedly more than expected last month** and **import growth more than halved**, while revisions to Nov. data erased what had appeared to be a long-hoped-for return to growth for outbound shipments.
- **Fed Chairwoman Yellen said that the U.S. economy faces no serious short-term obstacles**, though it must deal with important long-term challenges of low productivity and growing inequality.
- U.S. regulators accused **Fiat Chrysler** of using software on its diesel-powered Jeeps Cherokees and Ram pickups that allowed them to spew illegal amounts of pollution into the air, **the latest attack over emission standards**. The accusation could cost the company \$4.63B in fines, the EPA has estimated.
- **Turkey's parliament approved key articles of a constitutional reform** overnight which would allow the president to be a member of a political party and issue decrees, bringing a step closer the executive presidency sought by Erdogan.
- **The Bank of Korea kept interest rates unchanged at 1.25%**. Many economists think the BoK is likely to cut interest rates this year, with a primary reason being inflation in 2017 that is expected to remain below the central bank's 2% target.
- Blocking Chinese access to islands in the South China Sea would **require the U.S. to "wage war"**, an influential Chinese state-run tabloid said, after U.S. Secretary of State nominee Rex Tillerson suggested the strategy on Wednesday.
- **Today's eco calendar** heats up in the US with PPI inflation, retail sales and University of Michigan consumer confidence. Philly Fed Harker is scheduled to speak. **Earning season** start in earnest with several financials reporting.

# Rates

*Core bond rally aborted as resistances played their role*

*US 30-yr Bond auction average*

*Oil higher, while equities limit losses*

*Fed Harker is a hawk (confirmed)*

	US yield	-1d
2	1,18	-0,01
5	1,86	-0,02
10	2,36	-0,02
30	2,96	-0,01

	DE yield	-1d
2	-0,72	0,01
5	-0,48	-0,01
10	0,35	-0,02
30	1,07	0,01

*Strong US retail sales*

*Upside risks US PPI*

*Decade-high consumer sentiment*

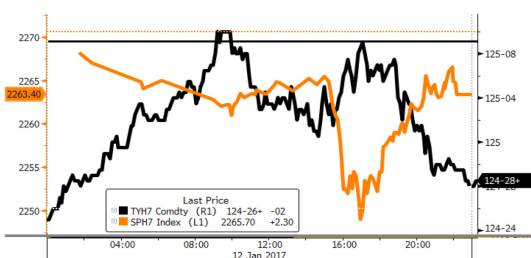
## Resistance and oil price halts rise US Treasuries

Global core bonds eked out some gains yesterday, but technical resistance and higher oil prices capped their up-leg. Equities managed to keep their composure. Core bonds opened strong as risk aversion ruled Asian trading and as some investors started doubting the reflation trade after Trump’s press conference. However, the risk-off sentiment didn’t really come to fruition. The US Note future ran into 125-09 resistance, which halted its up-leg. The US T-Note future once more tested the resistance in the afternoon, when US equities fell after the US opening. This attempt failed as well, as equities returned higher. Oil prices increased throughout the day which played also against core bonds. Core bond selling kicked in as an average 30-yr US bond auction was considered not good enough. In a daily perspective, US yields fell up to 1.8 bps, the belly of the curve outperforming. The 30-yr yield rose 0.4 bps. Changes on the German yield curve varied between -1.3 bps (10-yr) and +1.1 (30-yr) bp,. On intra-EMU bond markets, 10-yr yield spread changes versus Germany ranged between -2 bps and +1 bp with Portugal outperforming (-5 bps).

Fed governors Harker, Evans and Lockhart hit the wires and confirmed earlier comments. Harker and Evans are voting members this year and support 3 rate hikes. Importantly, Harker added that fiscal policies haven’t been factored into his forecasts, suggesting that he might get a hawkish bias throughout the year.

## Busy US calendar to dominate markets

The December US retail sales are expected to have risen by 0.7% M/M, following a modest 0.1% M/M rise in November. It would be the strongest monthly rise since a similar increase in June 2016, which would bring the Y/Y increase to about 4%. The strength will be broad-based. Unit car sales were very strong and both gasoline prices and volumes should have gone up. However, also excluding these two volatile items, retail sales should have grown fast. PPI (producer prices) are expected to have gone up by 0.3% M/M and 1.6% Y/Y in December following a 0.4% M/M and 1.3% Y/Y rise in November. Core PPI is expected to have increased only 0.1% M/M and 1.5% Y/Y after a 0.4% M/M and 1.6% Y/Y increase. We think however that risks are on the upside. Finally, the preliminary Michigan consumer sentiment is expected to be up slightly to 98.5 from 98.2 in December. Following steep increases in the previous months the index is at its highest level since January 2004. So, we expect a batch of very strong US data to start 2017.



T-Note future (black) and S&P future (orange) (intraday): US T-note future tests first key resistance twice, but failed



Oil price rebounds sharply after two day sell-off

### Strong US eco data should avoid break above 125-09

R2	165,48	-1d
R1	164,90	
<b>BUND</b>	163,62	0,49
S1	162,62	
S2	159,91	

**Overnight**, Asian stock markets trade mixed with China underperforming after disappointing trade data. The US Note future and Brent crude also suggest a neutral opening for the Bund.

**Today's eco calendar** heats up in the US with retail sales, PPI data and Michigan consumer confidence. Risks are on the upside of expectations which is negative for US Treasuries. In the aftermath of Trump's press conference, some investors started doubting the shelf life of the reflation trade. The US Note future tested 125-09 resistance a third time, but a break didn't occur. **If this resistance holds after today, we think that the US Note future could be in for some sideways trading in the near term between 122-14+ and 125-09.** General risk sentiment is today's other possible trading factor.

**Longer term, we expect US markets to further align with the Fed's scenario of 3 rate hikes this year. In EMU, the German Bund bounced into 164.9 resistance at the start of the year and fell prey to profit taking on higher German inflation data.** As the underlying economic picture in EMU improves further, we also expect more downside in the Bund despite the ECB's bond buying programme.



German Bund: New trading band between 160.72 and 164.90



US Note future: Sideways trading ahead if 125-09 holds after today's eco data?

# Currencies

*Dollar declined post Trump, but losses remain modest*

R2	1,0874	-1d
R1	1,0653	
<b>EUR/USD</b>	<b>1,0632</b>	<b>0,0073</b>
S1	1,0341	
S2	1,0000	

*Dollar rebounds after post-Trump correction, but gains are not really convincing*

*A batch of strong US eco data is expected.*

*Will the data be strong enough to revive the reflation traded and kick start a new USD rally?*

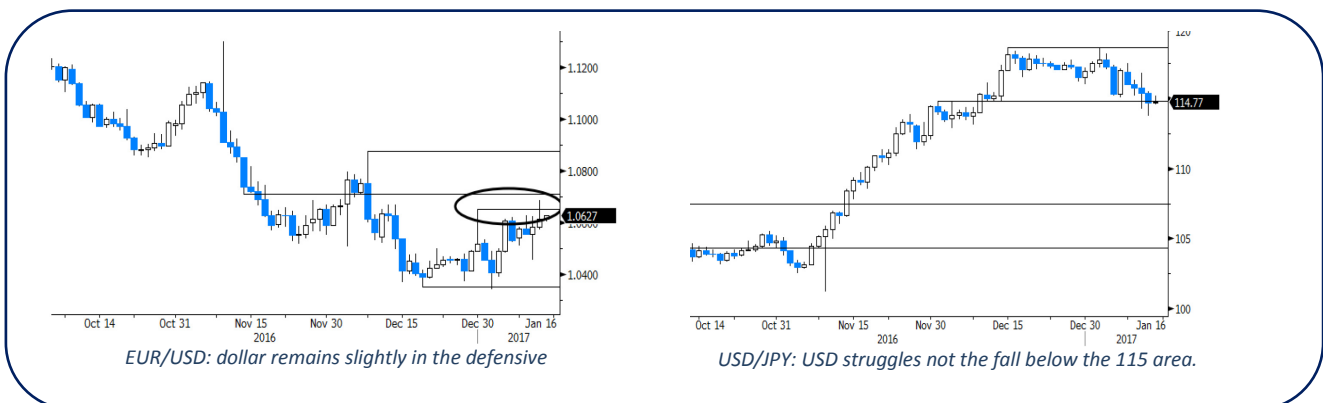
## Will strong US data kick-start new USD rally?

The reflation trade lost momentum yesterday as president elect Trump failed to give clear guidance on his policy. Core bond yields, the dollar and equities lost some ground, but part of this correction was reversed in US dealings. At the end of the day, the moves in most markets, including in the major dollar cross rates, were modest. EUR/USD set an intraday top in the high 1.06 area, but finished the day at 1.0613 (from 1.0582). USD/JPY dropped temporary below 114, but also ended the session at 114.72 (from 115.41 on Wednesday).

**Overnight**, most Asian equity indices trade with modest losses. The Chinese trade surplus narrowed more than expected as exports declined by 6.1% Y/Y while imports rose by 3.1%. The USD rebound is negative for regional equities excluding Japan. Japanese equities profit from the overall USD rebound. USD/JPY has rebounded to the 115 area, but the move is not really convincing yet. EUR/USD hovers in the low 1.06 area.

**Today, markets will focus on a heavy US eco calendar. Several US banks will report earnings.** The **December retail sales** are expected to have risen by 0.7% M/M. **Strength is expected to be broad-based.** Car sales were very strong and gasoline prices and volumes should have gone up. Also excluding these volatile items, retail sales should have grown fast. **PPI (producer prices)** are expected to have risen by 0.3% M/M and 1.6% Y/Y in December (1.3% Y/Y in November). Core PPI is expected at a more modest 0.1% M/M and 1.5% Y/Y, but we see upside risks. Finally, **Michigan consumer sentiment** is expected to be up slightly to 98.5 from 98.2. The index is already at its highest level since January 2004. So, we expect a batch of very strong US data to start 2017.

Yesterday, there was some hesitation on the reflation trade. The dollar traded with a negative bias, but the losses remain modest. Will a new batch of strong US eco data (and good results/strong guidance from major banks) be enough to revive the reflation trade? **Over the previous days, the dollar was a bit in the defensive even after decent US payrolls.** We remain a bit cautious as a lot of good news is already discounted. The lack of visibility on the Trump policy is also a reason for (USD) caution. So, despite expected strong data, we assume that it won't be that easy for the dollar to start a new upleg short-term.



**Global context:** EUR/USD touched a multi-year low at 1.0341 last week. **After the Trump rally, there is plenty of good USD news discounted. Interest rate differentials between the dollar and the euro remain very high, but didn't widen anymore of late, slowing the rise of the dollar.** The absolute interest rate support should provide a USD floor as long as US data remain good and as there are no profound doubts on the ability of the new government to execute its pro-growth agenda. **A buy the dollar on dips strategy remains preferred. EUR/USD 1.0670 resistance was tested yesterday, but no sustained break occurred. A return north of 1.0874 would question the USD positive momentum.** On the downside, **EUR/USD 1.0341 is the first key support. A test of parity remains possible MT.** USD/JPY is trading well off last week's top. A first support at 114.74/115.07 has been broken. If confirmed this is a USD/negative short-term. We stay USD/JPY positive long-term, but are in no hurry to rush in now. An equity correction or a further decline in core yields might be short-term negatives for USD/JPY.

### Sterling hammered ahead of key speech of PM May

R2	0,9047	-1d
R1	0,8851	
<b>EUR/GBP</b>	<b>0,8736</b>	<b>0,0049</b>
S1	0,8450	
S2	0,8304	

**On Thursday,** EUR/USD and cable traded initially in lockstep, as there were no important eco data in the UK. EUR/GBP hovered in a sideways range in the 0.8655/90 area. However, late in the session sterling came under substantial pressure. The move occurred after the announcement that UK Prime Minister May will give a key speech on Brexit on Tuesday next week (17 Jan). Markets clearly fear that the UK PM will play the card of keeping control on immigration, raising fears for a hard Brexit. EUR/GBP closed the session at 0.8726 (from 0.8667). Cable finished the day at 1.2162 (from 1.2213).

**Today,** there are again no important UK eco data. However, markets are currently focussed on the Brexit speech of UK PM May and fear that the UK PM will take a rather tough position. On this context, investors are obviously cautious to hold sterling long positions. So, sterling will probably fight an uphill battle ahead of the May speech. A break beyond the recent top in EUR/GBP (0.8763) might reinforce the sterling negative momentum short-term. The technical picture of EUR/GBP already improved as the pair regained a first resistance at 0.8668 earlier this week.



EUR/GBP rebound accelerates as UK PM May announces Key speech on Brexit



GBP/USD struggles to stay above recent lows

# Calendar

Friday, 13 January		Consensus	Previous
<b>US</b>			
<b>14:30</b>	<b>PPI Ex Food and Energy MoM / YoY (Dec)</b>	<b>0.1%/1.5%</b>	<b>0.4%/1.6%</b>
14:30	PPI Final Demand MoM / YoY (Dec)	0.3%/1.6%	0.4%/1.3%
14:30	PPI Ex Food, Energy, Trade MoM / YoY (Dec)	0.2%/1.8%	0.2%/1.8%
<b>14:30</b>	<b>Retail Sales Advance MoM (Dec)</b>	<b>0.7%</b>	<b>0.1%</b>
14:30	Retail Sales Ex Auto MoM (Dec)	0.5%	0.2%
14:30	Retail Sales Ex Auto and Gas (Dec)	0.4%	0.2%
14:30	Retail Sales Control Group (Dec)	0.4%	0.1%
16:00	Business Inventories (Nov)	0.6%	-0.2%
<b>16:00</b>	<b>U. of Mich. Sentiment (Jan P)</b>	<b>98.5</b>	<b>98.2</b>
16:00	U. of Mich. Current Conditions (Jan P)	111.5	111.9
16:00	U. of Mich. Expectations (Jan P)	89.8	89.5
16:00	U. of Mich. 5-10 Yr Inflation (Jan P)	--	2.3%
16:00	U. of Mich. 1 Yr Inflation (Jan P)	--	2.2%
<b>Japan</b>			
00:50	Money Stock M2 YoY (Dec)	A 4.0%	4.0%
00:50	Money Stock M3 YoY (Dec)	A 3.4%	3.4%
06:30	Bankruptcies YoY (Dec)	A 1.57%	-2.53%
<b>Germany</b>			
08:00	Wholesale Price Index MoM / YoY (Dec)	--/--	0.1%/0.8%
<b>Italy</b>			
10:30	General Government Debt (Nov)	--	2223.8b
<b>China</b>			
	Trade Balance (Dec)	A \$40.82b	\$44.23b
	Exports YoY / Imports YoY (Dec)	A-6.1%/3.1%	-1.6%/4.7%
	Exports YoY CNY / Imports YoY CNY (Dec)	A	5.9%/13.0%
		0.6%/10.8%	
	Trade Balance CNY (Dec)	A 275.40b	298.10b
<b>Spain</b>			
09:00	CPI EU Harmonised MoM / YoY (Dec F)	0.5%/1.4%	0.5%/1.4%
<b>Events</b>			
	<b>JP Morgan (12:45), Bank of America (12:45), Wells Fargo (14:00) publish Q4 results</b>		
<b>01:00</b>	<b>Yellen to Address Town Hall with Educators</b>		
10:30	Bank of England's Saunders Speaks in London		
<b>15:30</b>	<b>Fed's Harker Speaks on Economic Mobility in Philadelphia</b>		

10-year	<u>td</u>	<u>-1d</u>		2-year	<u>td</u>	<u>-1d</u>		Stocks	<u>td</u>	<u>-1d</u>
US	2,36	-0,02		US	1,18	-0,01		DOW	19891	35,47
DE	0,35	-0,02		DE	-0,72	0,01		NASDAQ	5547,487	-4,33
BE	0,67	-0,02		BE	-0,59	0,02		NIKKEI	19287,28	-77,39
UK	1,30	-0,06		UK	0,16	-0,04		DAX	11521,04	-62,26
JP	0,05	-0,02		JP	-0,22	0,03		DJ euro-50	3286,7	-19,51
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>		USD	<u>td</u>	<u>-1d</u>
3y	-0,11	1,67	0,69	Eonia	-0,3530	-0,0020		Libor-1	0,7672	0,0039
5y	0,08	1,91	0,87	Euribor-1	-0,3720	0,0000		Libor-3	1,0218	0,0070
10y	0,67	2,24	1,28	Euribor-3	-0,3270	-0,0030		Libor-6	1,3346	0,0031
				Euribor-6	-0,2340	-0,0020				
Currencies	<u>td</u>	<u>-1d</u>		Currencies	<u>td</u>	<u>-1d</u>		Commodities	<u>td</u>	<u>-1d</u>
EUR/USD	1,0632	0,0073		EUR/JPY	121,94	-0,53		CRB	194,97	3,83
USD/JPY	114,7	-1,29		EUR/GBP	0,8736	0,0049		Gold	1195,00	5,50
GBP/USD	1,217	0,0014		EUR/CHF	1,0723	-0,0009		Brent	56,06	2,29
AUD/USD	0,7492	0,0101		EUR/SEK	9,4998	-0,0756				
USD/CAD	1,3145	-0,0086		EUR/NOK	9,0492	-0,0274				

## Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	<b>Brussels</b>	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Mathias van der Jeugt	+32 2 417 51 94	Institutional Desk	+32 2 417 46 25
<b>Dublin Research</b>		France	+32 2 417 32 65
Austin Hughes	+353 1 664 6889	London	+44 207 256 4848
Shawn Britton	+353 1 664 6892	Singapore	+65 533 34 10
<b>Prague Research (CSOB)</b>		<b>Prague</b>	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
<b>Bratislava Research (CSOB)</b>		<b>Bratislava</b>	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
<b>Budapest Research</b>		<b>Budapest</b>	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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