



Sunrise

Monday, 07 November 2016

Rates: Risk sentiment improves, but stay side-lined into elections

Risk sentiment turned positive in Asia this morning as the FBI said that won't take action against US presidential candidate Clinton in the e-mail probe. US Treasuries took a hit while stocks and the dollar surged. Today's eco calendar is empty. Ahead of tomorrow's vote, we stay side-lined.

Currencies: Dollar rebounds as odds for Clinton victory rise

Overnight, the dollar profits from a broad-based risk-on sentiment as the FBI cleared presidential candidate Clinton in the e-mail probe. The dollar will probably stay away from the recent lows if no unexpected news disturbs the election campaign. However, we don't expect a sustained USD rally before the US election is out of the way.

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** were well-inspired during much of Friday's session, but gave back the gains to close with small losses, as election fears trumped solid payrolls.
- **The FBI said it would take no action against Mrs Clinton** regarding its probe into emails of the presidential candidate. Asian equities and assets election-sensitive assets (Peso, dollar, oil) bounced higher while US Treasuries lost ground.
- **Moody's was the last of the 3 big rating agencies to upgrade Hungary's rating back to investment grade** (Baa3; stable outlook). Moody's singled out the primary surpluses of the past 4 years, a commitment to reducing debt.
- Fitch confirmed **the Dutch AAA rating** with stable outlook and **Latvia's A- rating** with stable outlook. **S&P revised the outlook of Turkish BB rating** to stable from negative, as the country takes measures to reduce external vulnerabilities.
- **The People's Bank of China has weakened the renminbi's trading band** against the dollar, effectively undoing last week's stretch of strengthening.
- **British Prime Minister Theresa May said on Sunday she would deliver a full exit from the European Union**, hitting back at critics of her Brexit strategy who have threatened to try to block the process in parliament.
- **The majority of Bank of Japan policymakers believe it could take time for inflation expectations to firm**, underscoring lingering doubts on how effective the BOJ's new policy framework would be in achieving its 2% price target.
- **ECB Constancio said euro zone inflation will accelerate quickly in coming months** and a recent string of encouraging economic data may have reduced risks to growth. Inflation may be around 1.3% in March if things go normally.

Rates

US election uncertainty trumps solid US payrolls

Global core bonds treaded water into Friday's US payrolls report which painted a healthy picture of the labour market. US Treasuries spiked lower, but the move lacked conviction. Investors changed tactics and resumed last week's safe haven bid into the weekend and ahead of tomorrow's US general election, helped by ongoing oil weakness. Brent crude tested key support around the \$45.50 level with an intra-day low at \$45.08 during Friday's volatile session. In a daily perspective, the German yield curve bull flattened with yields 0.5 bps (2-yr) to 4.4 bps (30-yr) lower. The US yield curve shifted in similar fashion with yields 2.3 bps (2-yr) to 3.9 bps (30-yr) lower. On intra-EMU bond markets, 10-yr peripheral yield spread changes versus Germany widened 6 bps for Spain/Portugal and 8 bps for Italy. Spread volatility increases as global uncertainty rises. The VIX rose to 22.5, the highest level since Brexit.

Curves bull flatten

Peripheral bond spreads widen as uncertainties increase

	US yield	-1d
2	0,8338	0,0161
5	1,2922	0,0325
10	1,8225	0,0196
30	2,5973	0,0047

	DE yield	-1d
2	-0,6330	-0,0110
5	-0,4240	-0,0240
10	0,1400	-0,0200
30	0,7378	-0,0434

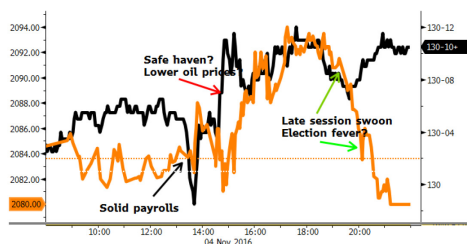
Payrolls printed near consensus (161K), but previous month's figures were upwardly revised (+44K), the unemployment rate ticked lower to 4.9% and wage growth (2.8% Y/Y) accelerated at the fastest pace since end 2009. The payrolls clear an important hurdle for the Fed's plan to hike rates in December.

Uneventful eco calendar today and this week

The US eco calendar is limited to the labour market condition index and consumer credit, none of which is a market mover. The European calendar isn't much more interesting with the September retail sales and the November Sentix Investor confidence. The latter might have eased a bit due to the US election jitters (consensus 8.6 from 8.5 previously), while the former is volatile and difficult to forecast. Nevertheless based on some national data, retail sales should be weak (-0.5% M/M). However, we don't expect much market impact, as it is outdated news. ECB Constancio speaks on a macro prudential hearing panel, while ECB Lautenschlaeger (hawk) speaks in Munich. Later this week, the US eco calendar remains very thin with only Michigan consumer confidence on Friday. In EMU, there are no key releases. National production data from France and Italy on Thursday are worth watching as these countries lag EMU peers. Chinese trade data on Tuesday and CPI on Wednesday might have some impact. The event of the week is the US presidential election on Tuesday/Wednesday.

No key eco releases today and this week

All eyes on US elections



T-Note future (black) S&P future (orange) (intraday): Temporary spike lower bonds on solid payrolls, but election uncertainty (and lower oil prices) prevail. Equities crash into end of session



Vix, index of fear, surges higher ahead of unpredictable election outcome.

EMU supply relatively low; US mid-month refinancing

R2	164,3	-1d
R1	163	
BUND	162,37	0,2400
S1	161,37	
S2	161,11	

The Netherlands, Germany and Italy tap the EMU bond market this week. The Dutch debt agency kicks off tomorrow with a 10-yr DSL auction (€2.5B 0.5% Jul2026). On Wednesday, the German Finanzagentur holds a 2-yr Schatz auction (€5B 0% Dec2018). On Friday, the Italian treasury concludes with probably 3-yr, 7-yr and 15-yr BTP auctions (to be confirmed). This week's EMU bond supply won't be supported by redemptions.

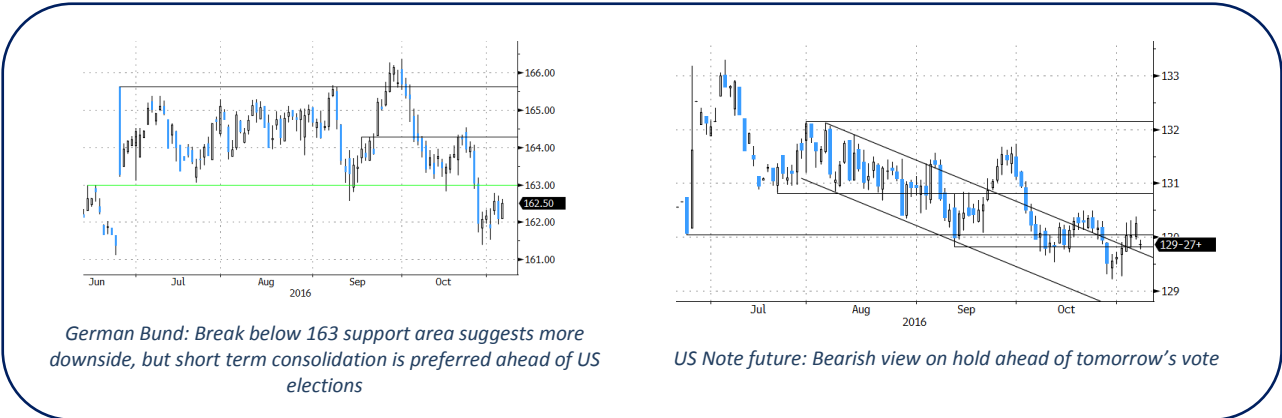
The **US Treasury** starts its mid-month refinancing operation tomorrow with \$24B 3-yr Note auction. The Treasury continues on Wednesday with a \$23B 10-yr Note auction and ends on Thursday with a \$15B 30-yr Bond auction.

Risk sentiment improves, but stay side-lined into vote

Overnight, risk sentiment improved as the FBI announced that it won't take action against US presidential candidate Clinton over the new e-mails. Stock markets gain around 1%, the dollar surges and US Treasuries took a hit. We expect a weaker opening for the Bund as well.

Today's calendar won't impact trading. Risk sentiment, influenced by US election headlines, will be the key trading factor. Despite the overnight change in sentiment, we won't adapt our strategy and continue to **put our short term bearish view on core bonds on hold** (because of narrowing gap Clinton-Trump) **ahead of tomorrow's election**. After the elections, we hope to put on new short positions.

Medium term technical pictures deteriorated. Rising inflation expectations and central banks' change of tone (extraordinary policy won't last forever) triggered the sell-off which started at the beginning of October. The US 10-yr and 30-yr yields held above key resistance levels at 1.75% and 2.5%. The German 10-yr yield moved above the 0.10% resistance. This break is relevant from a technical point of view and unlocks a new trading range (0.10%-0.30%).



Currencies

Dollar rebounds as Cliton stays in pole-position

On Friday the dollar basically held a sideways trading pattern against the euro and the yen. EUR/USD evolved in a tight sideways range around 1.11. Even a solid October US payrolls report, which at last showed signs of wage growth, was unable to give direction. **US election uncertainty paralysed investors.** The rate differential slightly moved in favour of the dollar, but was flatly ignored. **EUR/USD even closed the session near the intraday highs at 1.1141 (from 1.1105).** USD/JPY finished an uneventful session at 103.12 (from 102.98).

Dollar didn't profit from solid payrolls as election uncertainty weighed

Dollar rebounds on FBI headlines

R2	1,1366	-1d
R1	1,1127	
EUR/USD	1,1069	-0,0032
S1	1,0826	
S2	1,0711	

Eco data will probably be of sector tier importance for USD trading

How much will the dollar gain in the wake of the FBI comments?

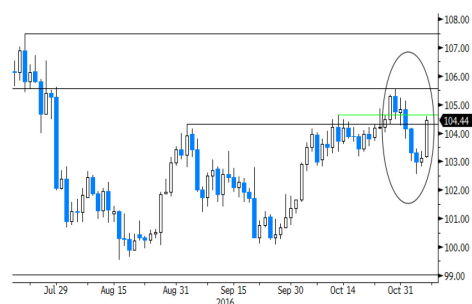
News from the US election campaign remains the focus for global trading. The FBI cleared Hillary Clinton from any criminal charges in the E-mail probe. This has triggered **a global risk-on reversal even as the gains are mixed across the region. Japanese equities outperform. USD/JPY rebounded north of 104 on global USD strength.** Even so, Japanese vice minister of international affairs who is responsible for currency policy indicated that Japan is watching markets closely. FX intervention isn't ruled out after the US presidential election in case of excessive currency moves. Chinese equities underperform. **The yuan declines on broad-based USD strength with USD/CNY trading in the 6.7750 area.** Political tensions between mainland China and Hong Kong might also be a factor of regional uncertainty. **EUR/USD shows some wild swings overnight on the Clinton headlines. The pair trades currently in the 1.1070 area.**

Today, the US eco calendar only contains the labour market condition index and consumer credit, none of which is a market mover. **The European calendar is also little interesting with the September retail sales and the November Sentix Investor confidence.** Based on some national data, retail sales should be weak (-0.5% M/M), but we don't expect much market impact. **ECB Constancio speaks on a macro prudential hearing panel, while ECB Lautenschlaeger (hawk) speaks in Munich. However, the focus of global trading will remain on the US presidential election with results expected late on Tuesday/Wednesday.**

The dollar rebounded across the board as the FBI cleared Clinton in the e-mail probe. There might be some follow-through price action on his process today. However, investors will probably remain cautious as unexpected developments in the election campaign/outcome are still possible. In this context, we expect the dollar to stay away from the recent lows, but further sustained gains are not that evident. The dollar probably needs certainty on the election result to resume its rally supported by cemented Fed-rate hike expectations.



EUR/USD: 1.1123 extensively tested, but no sustained break



USD/JPY correction aborted on FBI E-mail comments

From a technical point of view, EUR/USD dropped below 1.0952/13 support, which was USD positive, but the re-break followed soon, when Clinton's campaign ran into trouble. The previous range bottom (1.1123) was under test at the end of last week, but a sustained break didn't occur. Other resistances are located in the 1.12 area. USD/JPY's break above 104.32/87 resistance is undone. Until last week, the rise in core yields dominated USD/JPY and forced a (temporary) break higher. The return of US political uncertainty pushed USD/JPY back in the previous range. We stay side-lined for now.

R2	0,9142	-1d
R1	0,9068	
EUR/GBP	0,8905	-0,0004
S1	0,888	
S2	0,8725	

Sterling rally to slow?

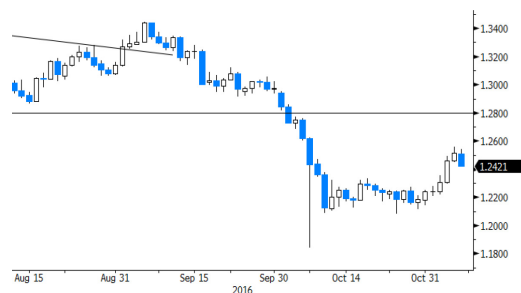
On Friday, sterling gained gradually further ground versus euro and dollar, following some volatile Asian trading. The price action was probably followed through action on the trifecta of Thursday's good news in the form of the High Court ruling, a decision by the Bank of England to upgrade its growth and inflation forecasts and stronger than expected growth in the services sector. The intraday rally of sterling slowed going into the weekend. EUR/GBP finished the session at 0.8900 (from 0.8912). Cable closed the session at 1.2517 (from 1.2461).

During the weekend, UK PM May repeated that she is still convinced to change the ruling of the High Court on the role of Parliament in the Brexit process. However, market moves on the FBI headlines are also the most important driver for GBP-trading this morning. Cable declines off Friday's highs, losing more than one big figure on USD strength. EUR/GBP is little changed in the 0.89 area. Today, the UK economic calendar is thin with only the Halifax House prices on the agenda. So global factors will probably determine sterling trading.

Despite the sterling gains at the end of last week, the issue of Brexit remains a big uncertainty and thus a stumbling block for a sustained improvement of sterling. Therefore, we aren't convinced that a multi-day sterling rally is in store. Anyway, the EUR/GBP support area (0.8880/0.8808) should first be broken before contemplating a change of our sterling skeptical view short-term. Medium term, EUR/GBP 0.8725 remains the line in the sand.



EUR/GBP: sterling rally to slow?



GBP/USD: rebounds off the recent lows, both on USD weakness and sterling strength

Calendar

Monday, 7 November		Consensus	Previous
US			
16:00	Labor Market Conditions Index Change (Oct)	--	-2.2
21:00	Consumer Credit (Sep)	\$17.5b	\$25.873b
Japan			
01:00	Labor Cash Earnings YoY (Sep)	A 0.2%	-0.1%
01:00	Real Cash Earnings YoY (Sep)	A 0.9%	R 0.6%
UK			
09:30	Halifax House Prices MoM / 3Mths/Year(Oct)	--/4.7%	0.1%/5.8%
EMU			
10:30	Sentix Investor Confidence (Nov)	8.6	8.5
10:10	Markit retail PMI (Oct)		53
11:00	Retail Sales MoM / YoY (Sep)	-0.3%/1.2%	-0.1%/0.6%
Germany			
08:00	Factory Orders MoM / WDA YoY (Sep)	A:-0.6%/2.6%	0.9%/2.0%
09:30	Markit Germany Construction PMI (Oct)	--	52.4
Norway			
08:00	Industrial Production MoM / WDA YoY (Sep)	--/--	-4.7%/-6.4%
Spain			
09:00	Industrial Production MoM (Sep)	-0.5/2.5%	1.4%/4%
Events			
10:15	ECB's Constancio on Panel at EU Macro-Prudential Hearing		
17:00	ECB's Lautenschlaeger Speaks in Munich		

10-year	td	-1d	2-year	td	-1d	STOCKS	-1d
US	1,82	0,02	US	0,83	0,02	DOW	17888,28
DE	0,14	-0,02	DE	-0,63	-0,01	NASDAQ	for Exch - NQI #VALUE!
BE	0,41	0,00	BE	-0,61	0,01	NIKKEI	17177,21
UK	1,13	-0,07	UK	0,19	0,02	DAX	10259,13
JP	-0,05	0,01	JP	-0,24	0,01	DJ euro-50	2955,2954,53

						USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,343
3y	-0,116	1,147	0,650	Euribor-1	-0,37	0,00	Libor-1 USD	0,27
5y	0,016	1,308	0,759	Euribor-3	-0,31	0,00	Libor-3 USD	0,41
10y	0,507	1,663	1,088	Euribor-6	-0,21	0,00	Libor-6 USD	0,57

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1069	-0,0032	EUR/JPY	115,58	0,99		183,3803	1289,14	46,19
USD/JPY	104,45	1,19	EUR/GBP	0,8905	-0,0004	-1d	0,00	-6,77	-0,29
GBP/USD	1,2426	-0,0031	EUR/CHF	1,0821	0,0001				
AUD/USD	0,7674	0,0007	EUR/SEK	9,9377	-0,02				
USD/CAD	1,3387	-0,0015	EUR/NOK	9,0496	-0,04				

Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	Brussels	
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
Dublin Research		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
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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