KBC Market Research Desk - Havenlaan 12, 1080 Brussel

Sunrise

Tuesday, 08 November 2016

Rates: Listless trading ahead of US presidential election outcome

Today's trading session will be low-volume and range-bound ahead of the US presidential election results. We expect core bonds to undo November gains in case of Clinton victory, while a win for Trump could trigger a one-off, Brexit-like, move higher which could prove to be an opportunity to enter new short positions.

Currencies: Dollar off the recent lows, counting down to the election result

Yesterday, the post FBI USD rally slowed. EUR/USD and USD/JPY found a new short-term equilibrium awaiting the outcome of the US presidential election. Will the election result allow the dollar to resume its rebound, supported by hopes of a December rate hike?

Calendar

Headlines

- **US equities gained 2.2% (S&P)** as the FBI communication on the Clinton server use raises chances for a Clinton victory today. **Asian equities** are slightly higher as the pre-election rally runs out of steam.
- **Chinese trade figures for October disappointed.** Exports fell 7.3% Y/Y (USD terms) versus a 6% Y/Y decline expected. Imports fell 1.4% Y/Y, while a 1% Y/Y drop was expected. Renminbi figures showed a similar picture
- The **UK Supreme Court's decision on whether to overturn a decision requiring a parliamentary vote to trigger the UK's EU exit talks** could come as late as January, putting pressure on the government's timetable for Brexit talks.
- **Democrat Clinton had a projected 301-237 edge over Republican Trump** in the race to claim the 270 electoral votes required to win the presidency, based on RealClearPolitics polling averages in battleground states. However, there are still a lot of tight races which can influence the final result.
- The **EMU cannot set the details of medium-term debt relief for Greece** because they will depend on what happens in Dutch, French and German elections in 2017, Euro group chairman Dijsselbloem said. It will stop the Greek bond rally.
- **ECB hawk Lautenschlaeger** defended the bank's ultra-loose monetary policy, but added that she was sceptical of further interest rate cuts or other forms of easing. Will she oppose an extension of QE beyond March?
- **German industrial production** disappointed as it fell in September by 1.8% Y/Y to be up 1.2% Y/Y. The disappointment was eased by an upward surprise of the August figures to 3% M/M and 2.4% Y/Y. **Trade figures** showed a small decline of imports and exports in September, but only following a sharp rise in August.

S&P	↗
Eurostoxx50	↗
Nikkei	→
Oil	→
CRB	→
Gold	↘
2 yr US	↗
10 yr US	↗
2 yr GE	→
10 yr GE	↗
EUR/USD	↘
USD/JPY	↗
EUR/GBP	→

Rates

Cease-fire on bond markets, ahead of elections

US Treasuries decline on FBI communication (risk-on)

US Treasuries underperform Bunds

Peripheral bond spreads widen sharply on risk-on

Global core bonds recouped a small part (US)/the majority (Germany) of opening losses in an uneventful trading session. The FBI's decision to take no action against presidential candidate Clinton over new emails initially caused an improvement in risk sentiment at the start of the session. While equities and the dollar managed to hold on or even expanded gains. Core bonds recovered slightly, but eventually closed near opening levels. The second tier eco calendar didn't impact trading. In a daily perspective, the German yield curve bear steepened with yields 0.5 bps (2-yr) to 2.4 bps (30-yr) higher. Changes on the US yield curve varied between +3.5 bps (2-yr) and +5.5 bps (5-yr).

	US yield	-1d
2	0,8179	-0,0159
5	1,2841	-0,0081
10	1,819	-0,0035
30	2,5886	-0,0087

	DE yield	-1d
2	-0,6290	0,0040
5	-0,4120	0,0120
10	0,1600	0,0200
30	0,7605	0,0227

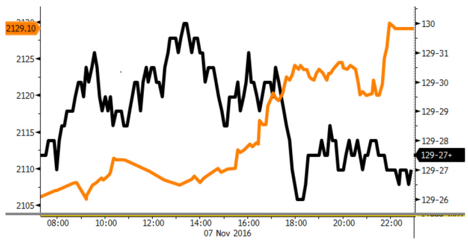
On intra-EMU bond markets, 10-yr yield spreads versus Germany narrowed up to 4 bps with Greece (-35 bps) and Portugal/Italy (-8 bps/-7 bps) outperforming. **Greek bonds profited from Friday's unexpected cabinet reshuffle by PM Tsipras, who** replaced critics of the latest bailout reforms. Tsipras hopes that the second bailout review will be completed this year, paving the way for debt relief talks. The euro group smashed these expectations though (see headlines). **Portuguese bonds profited from the parliamentary approval of the 2017 budget.**

Uneventful eco calendar

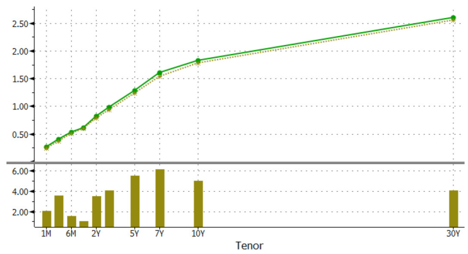
No key eco releases today

All eyes on US elections

The US eco calendar contains **October NIFB small business confidence** and the **September JOLTs job openings**, but more important are the **US presidential elections**. Results are expected by early Wednesday. Small business confidence eased slightly in September, but actually already peaked in December 2014. It is no market mover though and neither are the JOLTS data. **Chicago Fed Evans** speaks on the economy and policy. Evans is one of the most dovish (non-voting) governors, but we think he supports a December decision to increase rate. EMU national production data will be published at the opening of the session (see headlines).



T-Note future (black) S&P future (orange) (intraday): Treasuries open much lower. Equities eke out more than 2% gains as chances Clinton victory rise



US yield curve shifts higher with 5-7-yr yields rising the most

R2	164,3	-1d
R1	163	
BUND	**162,15**	-0,2200
S1	161,37	
S2	161,11	

The Netherlands and US tap bond market

The Dutch debt agency kicks off this week's scheduled EMU bond supply with a 10-yr DSL auction (€2.5B 0.5% Jul2026). The bond traded stable in ASW spread terms going into the auction, but is one of the cheapest on the Dutch curve. Therefore, we expect decent demand. The **US Treasury** starts its mid-month refinancing operation with $24B 3-yr Note auction. Currently, the WI trades around 0.98%. Given the timing of the auction, just ahead of the US elections, and the prospect of a 25 bps rate hike by the Fed in December, we fear tepid demand.

US election day!

Overnight, Asian stock markets record profits of around 0.50% in line with additional gains in WS yesterday evening following the latest developments in Clinton's email probe. The US Note future and Brent crude trade stable, suggesting a neutral opening for the Bund. Weak Chinese trade data didn't influence markets.

Today's calendar contains US NFIB Small business optimism and a speech by Chicago Fed governor Evans, but will be completely dwarfed by the US presidential election. In the run-up to tonight's vote, we expect most investors to stay side-lined causing low volume range-bound trading. **Regarding the outcome, we expect core bonds to undo November gains in case of a Clinton-victory. In case of a Trump victory, we expect global markets to react in a way similar to the surprising Brexit-vote at the end of June: a big initial risk-off reaction, which in bond terms, could be used to sell the uptick.**

Medium term technical pictures deteriorated. Better eco data, 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%).

German Bund: Break below 163 support area suggests more downside, but short term focus on US presidential elections.

US Note future: November gains undone in case of Clinton victory. One-off Brexit-like reaction in case of Trump election?

Currencies

Dollar rebound stalls, awaiting the election result

Dollar rebounds as Clinton victory becomes more likely

R2	1,1366	-1d
R1	1,1145	
EUR/USD	**1,1045**	-0,0024
S1	1,0826	
S2	1,0711	

On Monday, the FBI announcement on the Clinton E-mails (no further action) dominated USD trading, triggered a global risk-on rally. In this global move, the dollar rebounded off last week's correction lows against the euro and the yen. Most of the USD rally rebound already occurred in Asia, but the dollar remained well bid through the session as US equities extended the global risk on rally. EUR/USD closed the session at 1.1041, one big figure lower compared to Friday. USD/JPY finished the session at 104.46 (from 103.12). Core bond yields and interest rate differential between the US and Europe rose at the open of the European markets, but stabilized afterwards.

Asian markets maintain cautious risk-on bias

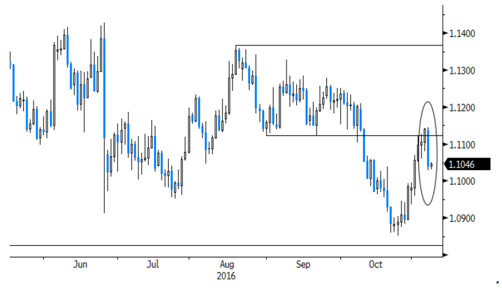
USD stabilizes

Overnight, Asian equities show some follow-through gains. The China trade balance data were disappointing with both imports and exports declining more than expected. However, it hardly impacted regional sentiment. The yuan trades marginally softer against the dollar (USD/CNY 6.7785), with the pair holding near the recent highs. **The moves in other dollar cross rates are contained, as the repositioning for a** Clinton victory has been done. The dollar is now shifting into a wait-and-and see modus, awaiting the election results. EUR/USD trades in the 1.1045 area, USD/JPY around 104.34/40. Commodity related assets/currencies also remain well bid with AUD/USD again testing the 0.77 barrier.

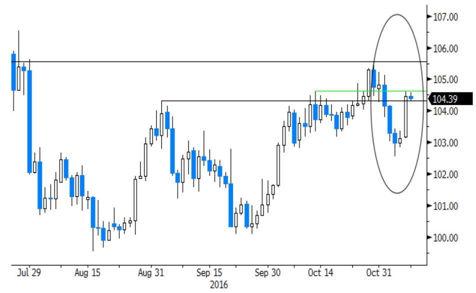
Dollar found new short-term equilibrium awaiting the outcome of the US election

Today, the US eco calendar contains **October NIFB small business confidence** and the **September JOLTs job openings. These data won't have any lasting impact on USD trading. Investors await the outcome of the US presidential election.** Results are expected by early Wednesday. **Chicago Fed Evans** speaks on the economy and policy. Evens is one of the most dovish governors, but we think he would support a December decision to increase rate, if he had a vote (which is not the case in 2016).

The dollar rebounded across the board as the FBI cleared Clinton in the e-mail probe. **The dollar rally slowed later on yesterday. It found a new equilibrium (EUR/USD 1.1040 area, USD/JPY 104.30/40 area) awaiting the US election outcome.** The dollar probably needs certainty on the election result to resume its rally supported by cemented Fed-rate hike expectations. A Clinton victory looks the most USD supportive scenario short-term. A Trump victory might trigger a sell-off of US assets and hurt the dollar.



EUR/USD: topside test rejected as dollar rebounds going into the US election



USD/JPY: dollar rebounds, but stays within previous consolidation pattern

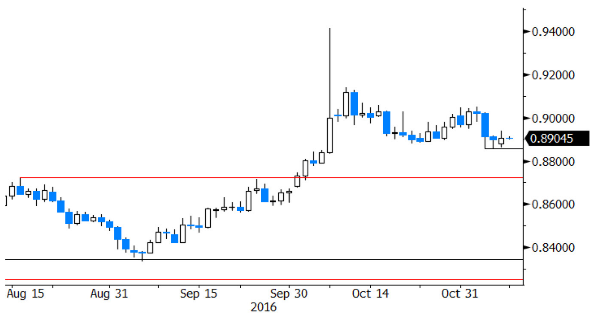
From a technical point of view, EUR/USD dropped below 1.0952/13 support, which was USD positive, but the re-break followed soon, when Clinton's campaign ran into trouble. The previous range bottom (1.1123) was under test at the end of last week, but a sustained break didn't occur. Other resistances are located in the 1.12 area. We look out whether the 1.1145/1.12 area holds. **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.

Sterling rebound runs into resistance

R2	0,9142	-1d
R1	0,905	
EUR/GBP	**0,8902**	-0,0003
S1	0,8857	
S2	0,8725	

On Monday, sterling trading was mostly driven by technical considerations. **The dollar moves in the wake of the FBI comments also filtered through into sterling trading. Cable initially declined more than EUR/USD** as the dollar rebounded across the board. **Sterling probably also had to return part of last week's gains as it became clear that the uncertainty on the Brexit-process hasn't diminished after last week Court ruling that Parliamentary approval was needed to activate Article 50 of the Lisbon treaty.** Whatever the reason, cable declined from the 1.25 area in Asia to an intraday low around 1.2382. The pair closed the session at 1.2393 (from 1.2517). EUR/GBP rebounded temporary to the 0.8938 area, but finished the session little changed at 0.8906.

Overnight, BRC like-for-like retail sales came out at 1.7% Y/Y, while only a 0.6% Y/Y rise was expected. Later today, the September UK production data will be published. However, the figure is a bit outdated. So we don't expect the report to have a lasting impact on sterling trading. **In the UK, the opposition calls the government to give more insight in the Brexit-process after the Court ruling last week.** The government holds to the line that it will meet the deadline of triggering Article 50 by the end of March. For now, the impact of the political debate on sterling lessened compared with a few weeks ago. However, the lingering political uncertainty remains sterling negative.**Therefore, we aren't convinced that sustained further sterling gains are in store. The EUR/GBP support area (0.8857) first needs to 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 rebound to slow?

GBP/USD: rebound blocked on broad-Based USD rebound

Calendar

Tuesday, 8 November		Consensus	Previous
US			
12:00	**NFIB Small Business Optimism (Oct)**	**94.1**	**94.1**
16:00	JOLTS Job Openings (Sep)	5488	5443
Japan			
06:00	Leading Index CI (Sep P)	A: 100.5	100.9
06:00	Coincident Index (Sep P)	A: 112.1	112.0
UK			
01:01	BRC Sales Like-For-Like YoY (Oct)	A: 1.7%	0.4%
10:30	**Industrial Production MoM / YoY (Sep)**	**0.0%/0.8%**	**-0.4%/0.7%**
10:30	Manufacturing Production MoM / YoY (Sep)	0.4%/-0.1%	0.2%/0.5%
16:00	NIESR GDP Estimate (Oct)	--	0.4%
Germany			
08:00	**Industrial Production SA MoM / WDA YoY (Sep)**	**-0.5%/2.0%**	**2.5%/1.9%**
08:00	Trade Balance (Sep)	22.4b	20.1b
08:00	Exports SA MoM (Sep)	-0.8%	3.4%
08:00	Imports SA MoM (Sep)	-0.2%	1.9%
France			
08:45	Trade Balance (Sep)	-4200m	-4255m
China			
03:33	**Trade Balance $ / CNY (Oct)**	**A: $49.6/325B**	**$42B/278B**
03:33	**Exports YoY / YoY CNY (Oct)**	**A:-7.3%/-3.2%**	**-10%/-5.6%**
03:33	**Imports YoY / YoY CNY (Oct)**	**A:-1.4%/3.2%**	**-1.9%/1.2%**
08NOV-18NOV	Foreign Direct Investment YoY CNY (Oct)	2.5%	1.2%
Sweden			
09:30	Household Consumption MoM / YoY (Sep)	--/--	0.0%/2.6%
Events			
	US Presidential election		
10:15	Netherlands to sell up to €2.5B 0.5% 2026 bonds		
11:30	Germany to sell up to €0.5B 0.1% I/L 2026 bonds		
13:45	**Fed's Evans Speaks on Economy and Policy in New York**		
18:00	**BoE Haldane speaks in London**		
19:00	US $24B 3-yr Note auction		

10-year	td	-1d	2 -year	td	-1d	STOCKS		-1d
US	1,82	0,00	US	0,82	-0,02	DOW	18260	18259,60
DE	0,16	0,02	DE	-0,63	0,00	NASDAQ	for Exch - NQI	#VALUE!
BE	0,43	0,02	BE	-0,63	-0,02	NIKKEI	17171	17171,38
UK	1,20	0,07	UK	0,17	-0,02	DAX	10456,95	10456,95
JP	-0,06	-0,01	JP	-0,25	0,00	DJ euro-50	3009	3009,28

							USD	td	-1d
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,344	-0,001
3y	-0,105	1,139	0,682	Euribor-1	-0,37	0,00	Libor-1 USD	0,26	0,26
5y	0,028	1,307	0,810	Euribor-3	-0,31	0,00	Libor-3 USD	0,40	0,40
10y	0,525	1,663	1,154	Euribor-6	-0,21	0,00	Libor-6 USD	0,56	0,56

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1045	-0,0024	EUR/JPY	115,26	-0,32		182,5041	1284,21	46,28
USD/JPY	104,395	-0,06	EUR/GBP	0,8902	-0,0003	-1d	-0,88	-4,93	0,09
GBP/USD	1,24	-0,0026	EUR/CHF	1,0763	-0,0058				
AUD/USD	0,7697	0,0023	EUR/SEK	9,9565	0,02				
USD/CAD	1,3377	-0,0010	EUR/NOK	9,0903	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)			
Jan Cermak	+420 2 6135 3578	**Prague**	+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8809	**Bratislava**	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	**Budapest**	+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE ON WWW.KBCCORPORATES.COM/RESEARCH