



## Sunrise

Thursday, 29 September 2016

### Rates: More upside oil prices after OPEC deal?

The evolution of the oil price will be today's dominant trading theme following yesterday's unexpected oil production freeze deal by OPEC. Even as many details still need to be hammered out, Brent crude rose to \$48.5/barrel. A further increase and improvement of risk sentiment is intraday negative for core bonds.

### Currencies: dollar shows muted reaction to OPEC oil production cut

Yesterday, the dollar settled again in calm technical trading. The rise in the oil price mostly affected smaller oil-related currencies. The impact on EUR/USD is close to non-existent. USD/JPY profits from the post OPEC risk on rally. The fall-out from the OPEC decision will continue to set the tone for USD trading today. The data calendar is well-filled.

### 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** gained 0.53% (S&P) helped by rebounding oil prices. This morning, also sentiment in **Asia** is upbeat with Japanese stocks outperforming following a rebound in USD/JPY.
- **Oil jumped more than 5% (\$48.50/barrel) after OPEC agreed to a preliminary deal that will cut production** for the first time in eight years. Many details still have to be worked out. Targets for each country won't be set until the next meeting at the end of November. One thing is clear: Iran won't freeze output.
- Reactions to OPEC deal: **stocks and exporter currencies trade higher**. Energy producers led the S&P's advance, with Exxon and Chevron among the biggest gainers in the Dow. The **Norwegian krone, loonie, Brazilian real and Aussie strengthened** most against the greenback. **Treasuries and the yen retreated**.
- **Janet Yellen told lawmakers most FOMC members expect a rate increase this year**, lifting expectations of a hike by the end of December to 54% from 50%. **IMF head Christine Lagarde** cautioned against moving too quickly.
- **Mario Draghi defended the European Central Bank's policies to German MPs**, claiming they have boosted German exports, reduced unemployment and provided a €28bn windfall for the government in lower interest payments last year.
- A group of senior members of **Spain's socialist party** offered on Wednesday a mass resignation in a bid to force party leader Pedro Sanchez out and help break the country's nine-month political deadlock, Spanish media said.
- **Today**, the eco calendar is busy with EC's economic confidence, German CPI and in the US final GDP, claims and pending home sales. **There are five Fed speakers and ECB's Liikanen, Praet & Constancio**. The subjects of the Fed speakers aren't monetary-policy linked though.

# Rates

## Core bonds lose momentum as stocks rebound

Global core bonds lost their bullish momentum of the previous 2 trading sessions this week as tension on stock markets eased and OPEC reached a production deal.

European stock markets rebounded driven by the tormented financial sector. Consumer confidence slightly disappointed in Italy and Germany while stabilizing in France. The EMU eco data didn't impact trading though. During US dealings, US Treasuries somewhat underperformed after the release of mixed durable goods orders and later on the OPEC deal. ECB president Draghi warned in his testimony that low rates for a long period might carry the risk of overvaluation in asset markets. That's another sign the ECB isn't convinced to go the extra mile with more monetary stimulus in the future. The US 7-year Note auction was plain vanilla.

In a daily perspective, changes on the German yield curve were negligible, while US ones were up to 1.5 bps higher. On intra-EMU bond markets, 10-yr yield spreads versus Germany narrowed up to 2 bps with Greece (-8 bps) and Portugal (10 bps) profiting most of easing tensions. Greek lawmakers approved an omnibus bill that may lead to the disbursement of the next tranche of the bailout and bring ECB Greek bond buying closer. Portugal's Finance Ministry changed the terms of the state's loans to the bank resolution fund, including extending maturities, helping banks avoid having to make extra payments.

## Busy calendar

After an unexpected slowdown in August, German HICP inflation is expected to have picked up in September. The consensus is looking for inflation to have accelerated to 0.5% Y/Y in September from 0.3% Y/Y in August. If confirmed, this would be the strongest rate of inflation since May 2015. The increase will be driven by positive base effects. Lower prices for holiday-related goods and services might be partly offset by higher prices for school equipment, but overall we see risks for a downward surprise. European Commission's economic confidence dropped one point in August, but a stabilization is expected for September. Earlier released business confidence indicators showed a mixed picture, but for the Commission indicator we see risks for a stronger outcome as consumer confidence already surprised positively and as the indicator fell quite significantly in the month before. In the US, the third estimate of Q2 GDP shouldn't bring any major surprise. A limited upward revision from 1.1% Q/Qa to 1.3% Q/Qa is expected. Jobless claims are expected to edge somewhat higher following a drop to a very low 252 000. We anticipate claims will hold close to recent lows (risks for another stronger report).

Surprisingly small bond reaction to OPEC deal

Shape curves little changed

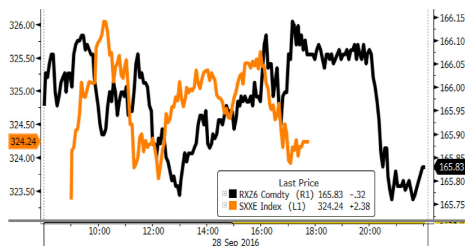
Greece and Portugal profit from country-specific items

	US yield	-1d
2	0,7657	0,0157
5	1,146	0,0146
10	1,5874	0,0224
30	2,3074	0,0227

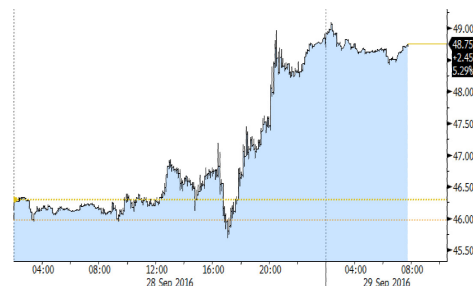
	DE yield	-1d
2	-0,6950	0,0060
5	-0,5910	0,0040
10	-0,1330	0,0090
30	0,4260	0,0027

An impressive number of central bankers speak (see calendar)

Downside risks German inflation, but upside risks EC eco confidence



Bund future (black) and EuroStoxx (orange) intraday: Largely sideways trading with Bund ending only modestly lower despite OPEC agreement



Brent Oil (intraday): jumps higher on OPEC agreement

R2	166,55	-1d
R1	166,27	
<b>BUND</b>	<b>165,83</b>	0,1500
S1	164,29	
S2	163	

### ly concludes this week's scheduled bond auctions

The Italian debt agency sells a new 5-yr BTP (€3.5-4B 0.35% Nov2021) and taps the on the run 10-yr BTP (€2-2.5B 1.25% Dec2026). Grey trading suggests that the new 5-yr BTP will be launched with a 5 bps pick-up in ASW spread terms compared with the previous 5-yr benchmark (0.45% Jun2021). That corresponds with a 7 bps pick-up in yield terms. The 10-yr BTP traded stable in ASW spread terms going into the auction, but is rather expensive of the Italian curve. **We expect a steady auction. The recent flaring up of concerns about the (Italian) banking sector, could weigh on investor demand.**

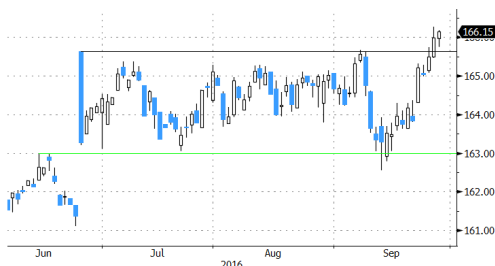
The US Treasury ended its refinancing operation with a plain vanilla \$28B 7-yr Note auction and a mediocre \$13B 2-yr FRN auction. The 7-yr Note auction stopped just above the 1:00 PM bid side and the bid cover was only modestly below average (2.47). Bidding details showed another lacklustre direct bid while the indirect and dealer bids were very much in line with average.

### More upside Brent crude following OPEC deal?

**Overnight**, most Asian equities gain up to 1% with Japan outperforming on the back of a weaker yen and despite disappointing retail sales. The oil price rally following the production freeze deal stalled in Asia around \$48.5/barrel. Fed George, Mester (hawkish dissenters) and Evans (dove) kept their view on monetary policy. The US Note future trades a tad softer suggesting a slightly lower opening for the Bund as well.

**Today's** eco calendar contains EC confidence data, German inflation, weekly US jobless claims and several Fed speakers (see above). **The evolution of the oil price might be the most dominant trading theme though. While OPEC reached a production freeze deal, many details still need to worked out. A further rise of Brent crude and improvement in risk sentiment is intraday negative for core bonds.**

**Technically**, the Bund broke above the upper bound of the post-Brexit trading range (163-165.63). If this break is confirmed by a move of the German 10-yr yield below -0.20%, it's definitely a bullish sign for the Bund. For now, the break below -0.20% didn't occur though with the German 10-yr yield at -0.14%. A test is nevertheless likely, especially if risk sentiment deteriorates again, meaning that the Bund has more upward potential in the meantime. **The trading range for the US Note future is expected to be 130-01+ to 132-05, at least until the first week of October (ISM's/payrolls) or until Washington-based Fed governors change the tone of their public comments (Oct 14, Yellen speech).**



German Bund: Break above upper bound sideways trend channel needs to be confirmed by drop below -0.20% German 10yr yield



US Note future: Downside better protected short term after dovish FOMC

# Currencies

## Dollar reaction to OPEC production cut subdued

On Wednesday, EUR/USD and USD/JPY turned again to low volatility trading. Tension in the European financial sector and the perceived political uncertainty moved again to the background. After the close of European markets, OPEC unexpectedly reached a deal to limit production. The decision supported (US) equities. However, the impact on EUR/USD and USD/JPY was very limited. EUR/USD closed the session at 1.1217, almost unchanged from Tuesday (1.1215). USD/JPY finished the day at 100.69 (from 100.43). The OPEC decision understandably propelled smaller, oil-dependent currencies like the CAD, the NOK and, to a lesser extent, the Aussie dollar.

*Dollar enjoyed a calm trading session yesterday.*

*An unexpected OPEC production cut had only a very limited impact on EUR/USD and USD/JPY.*

*USD/JPY profits from post-OPEC risk-on rally*

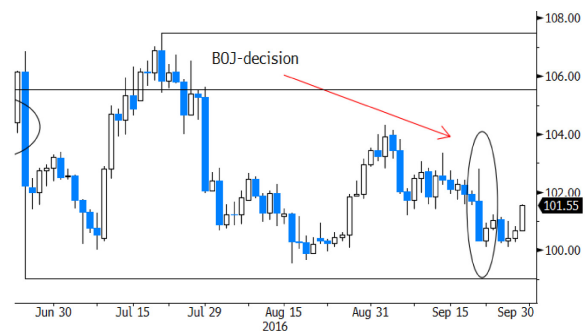
R2	1,1366	-1d
R1	1,1327	
<b>EUR/USD</b>	<b>1,1227</b>	0,0015
S1	1,1123	
S2	1,1046	

Overnight, the OPEC decision to cut production also supports Asian equities.

Regional indices gain about 0.5% to 1.0%. Yesterday evening, the rise of oil had only a limited impact on EUR/USD and USD/JPY. EUR/USD is still only very little changed and trades in the 1.1235 area. The prospect of higher inflation, higher core bond yields and the rise in equities is supporting the USD/JPY cross rate. The pair trades currently in the 101.40 area. Japanese eco data disappointed as retail sales and department store sales missed again expectations.



EUR/USD little changed after OPEC decision



USD/JPY: post-Opec risk rally supports USD/JPY

*Plenty of eco data, but fall-out from the OPEC production cut will set the tone for USD trading today*

Today, German HICP inflation is expected to have accelerated to 0.5% Y/Y (from 0.3% Y/Y). If confirmed, this would be the highest inflation since May 2015, but we see downside risks. European Commission's economic confidence is expected stable. Business confidence indicators showed a mixed picture of late, but for the EC indicator we see risks for a stronger outcome. In the US, the third estimate of Q2 GDP shouldn't bring a major surprise. Jobless claims are expected to edge slightly higher to 260 000 from a very strong 252 000. We see risks for another stronger report. The fall-out from the OPEC production cut will be key for trading. The data might be less important. A rise of the oil price is usually negative for the dollar. However, currently it only applies to the USD-performance against the oil related currencies. For EUR/USD, we look how the oil price rise will affect core interest rates/interest rate differentials. If combined with soft German inflation data, the rise in the oil price might even be slightly supportive for the dollar against the euro. It is also uncertain whether the oil rally will continue as many details of the deal have still to be worked out. USD/JPY profited from the risk rally. This momentum can continue short-term,

but we would be surprised to see sustained USD/JPY gains on a rise of the oil price. We don't expect the move will go far. We look to sell on up-ticks.

EUR/USD tested the 1.1123 support before the Fed, but the test was rejected as the Fed stayed in wait-and-see modus. **The Fed decision hasn't changed the broader picture for EUR/USD.** Markets look out whether the data support the case for a December rate hike. **Swings in December rate hike expectations will probably be the driver for USD trading.** The dollar might lose slightly further ground short-term, but as long as the market implied probability of a Fed rate hike remains at current levels, the downside of the dollar looks well protected. We prefer more range trading in the 1.1123/1.1366 band and a sell-on-upticks approach. **USD/JPY remains in the defensive after the BOJ meeting.** We stay cautious on USD/JPY long exposure. However, the **99.54/99.02 area will remain a strong support. 104.32 is the first main resistance.** We expect the established 99.89/104.32 range to hold, but downside risks have grown post BOJ/Fed.

### Sterling ignores oil-driven rally

R2	0,8815	-1d
R1	0,8725	
EUR/GBP	<b>0,8624</b>	0,0009
S1	0,8344	
S2	0,8251	

**On Wednesday**, there were no UK eco data. Sterling opened strong against the euro and the dollar probably due a better global risk sentiment. However, the bid for sterling eased soon. **BoE's Shafik said more easing was probably needed after the sizable economic shock of Brexit. The comments were no big surprise but were maybe enough to cap further GBP gains.** Both cable and EUR/GBP were captured in technical, sideways trading. The OPEC decision to limited production had remarkably little impact on sterling trading. EUR/GBP closed the session at 0.8617 (from 0.8613). Cable finished the day at 1.3019 (from 1.3023).

**This morning**, sterling still held close to yesterday's levels despite the oil-driven risk rally in Asia. **Later today**, the UK money supply and lending data will be published. Mortgage approvals are already on a downward trajectory for quite some time. We keep an eye on consumer credit data. A further easing in lending might be slightly negative for sterling. However, global factors (oil/risk-on) and the political Brexit debate will probably remain the key drivers for sterling. Until now, the oil price rise had hardly any impact on sterling, but the UK currency might still gain slightly ground on this issue as soon as London traders join. On the other hand, end of month positioning might be slightly sterling negative.

**Yesterday**, we suggested that a pause in the Brexit-related decline of sterling could be on the cards. We maintain that view. **Both EUR/GBP and cable came close to important technical barriers at respectively 0.8725 and 1.2866/1.2798.** These levels might provide support for sterling short-term. The fear for a hard Brexit might still resurface. In this context, we don't expect any GBP rebound to go far. A sell sterling on upticks approach remains preferred.



EUR/GBP: test of 0.8725 post-Brexit top rejected.



GBP/USD: consolidation, but cable still struggles not to fall further below 1.30

# Calendar

Thu., 29 September		Consensus	Previous
<b>US</b>			
14:30	Advance Goods Trade Balance (Aug)	-\$62.7b	-\$59.3b
14:30	Wholesale Inventories MoM (Aug P)	0.0%	0.0%
<b>14:30</b>	<b>GDP Annualized QoQ (2Q T)</b>	<b>1.3%</b>	<b>1.1%</b>
14:30	Personal Consumption (2Q T)	3.0%	4.4%
14:30	GDP Price Index (2Q T)	2.3%	2.3%
14:30	Core PCE QoQ (2Q T)	--	1.8%
<b>14:30</b>	<b>Initial Jobless Claims</b>	<b>--</b>	<b>252k</b>
14:30	Continuing Claims	--	2113k
16:00	Pending Home Sales MoM / NSA YoY (Aug)	-0.1%/--	1.3%/-2.2%
<b>Japan</b>			
01:50	Retail Sales MoM / Retail Trade YoY (Aug)	-1.1%/-1.7%	1.4%/-0.2%
01:50	Dept. Store, Supermarket Sales (Aug)	-2.9%	0.6%
<b>UK</b>			
10:30	Net Consumer Credit (Aug)	1.4b	1.2b
10:30	Net Lending Sec. on Dwellings (Aug)	2.5b	2.7b
10:30	Mortgage Approvals (Aug)	59.8k	60.9k
10:30	Money Supply M4 MoM (Aug)	--	1.2%
10:30	M4 Money Supply YoY (Aug)	--	3.9%
10:30	M4 Ex IOFCs 3M Annualised (Aug)	--	14.7%
<b>EMU</b>			
<b>11:00</b>	<b>Economic Confidence (Sep)</b>	<b>103.5</b>	<b>103.5</b>
11:00	Business Climate Indicator (Sep)	0.03	0.02
11:00	Industrial Confidence (Sep)	-4.4	-4.4
11:00	Services Confidence (Sep)	10.1	10.0
11:00	Consumer Confidence (Sep F)	--	-8.2
<b>Germany</b>			
	CPI Baden Wuerttemberg MoM / YoY (Sep)	--/--	-0.1%/0.2%
09:00	CPI Saxony MoM / YoY (Sep)	--/--	-0.1%/0.5%
09:55	Unemployment Change (000's) (Sep)	-5k	-7k
09:55	Unemployment Claims Rate SA (Sep)	6.1%	6.1%
10:00	CPI Brandenburg MoM / YoY (Sep)	--/--	-0.3%/0.1%
10:00	CPI Hesse MoM / YoY (Sep)	--/--	0.1%/0.3%
10:00	CPI Bavaria MoM / YoY (Sep)	--/--	0.0%/0.5%
10:30	CPI North Rhine Westphalia MoM / YoY (Sep)	--/--	0.0%/0.4%
<b>14:00</b>	<b>CPI EU Harmonized MoM / YoY (Sep P)</b>	<b>0.0%/0.5%</b>	<b>-0.1%/0.3%</b>
<b>Belgium</b>			
	CPI MoM / YoY (Sep)	--/--	-0.05%/2.16
<b>Spain</b>			
09:00	CPI EU Harmonised MoM / YoY (Sep P)	--/--	0.0%/-0.3%
<b>Events</b>			
01:15	Fed's George Speaks to Minority Bankers in Kansas City		
10:00	Bank of Finland Governor Liikanen Briefing on Monetary Policy		
11:00	Italian BTP auction		
11:00	Fed's Harker Speaks in Dublin, Ireland		
14:50	Fed's Lockhart Speaks to the Future of Florida Forum		
16:00	Fed's Powell Speaks on Trends in Community Bank Performance		
20:00	Fed's Kashkari Speaks at Town Hall in South Dakota		
22:00	Yellen addresses minority banking conference via video link		

# Contacts

10-year	td	-1d	2-year	td	-1d	STOCKS		-1d
US	1,59	0,02	US	0,77	0,02	DOW	18339	18339,24
DE	-0,13	0,01	DE	-0,70	0,01	NASDAQ	for Exch - NQI	#VALUE!
BE	0,13	0,02	BE	-0,64	0,00	NIKKEI	16727	16726,57
UK	0,68	0,01	UK	0,09	0,02	DAX	10438,34	10438,34
JP	-0,08	0,00	JP	-0,27	0,01	DJ euro-50	2991	2991,11

						USD	td	-1d	
IRS	EUR	USD (3M)	GBP	EUR	-1d	-2d	Eonia EUR	-0,346	-0,003
3y	-0,225	1,043	0,416	Euribor-1	-0,37	0,00	Libor-1 USD	0,27	0,27
5y	-0,155	1,157	0,470	Euribor-3	-0,30	0,00	Libor-3 USD	0,38	0,38
10y	0,260	1,419	0,724	Euribor-6	-0,20	0,00	Libor-6 USD	0,53	0,53

Currencies		-1d	Currencies		-1d	Commoditie	CRB	GOLD	BRENT
EUR/USD	1,1227	0,0014	EUR/JPY	114,07	1,29		183,1051	1322,45	48,71
USD/JPY	101,605	0,98	EUR/GBP	0,8624	0,0010	-1d	-1,88	-3,15	2,52
GBP/USD	1,3015	0,0001	EUR/CHF	1,0902	0,0012				
AUD/USD	0,7683	-0,0001	EUR/SEK	9,6102	-0,03				
USD/CAD	1,3079	-0,0123	EUR/NOK	9,0100	-0,09				

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
Joke Mertens		+32 2 417 30 59	Institutional Desk		+32 2 417 46 25
Mathias van der Jeugt		+32 2 417 51 94	France		+32 2 417 32 65
<b>Dublin Research</b>			London		+44 207 256 4848
Austin Hughes		+353 1 664 6889	Singapore		+65 533 34 10
Shawn Britton		+353 1 664 6892			
<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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